

**MEMO# 26595**

October 18, 2012

## **Draft ICI Letter on SEC Technology and Trading Roundtable**

[26595]

October 19, 2012

TO: EQUITY MARKETS ADVISORY COMMITTEE No. 28-12  
ETF (EXCHANGE-TRADED FUNDS) COMMITTEE No. 36-12  
ETF ADVISORY COMMITTEE No. 38-12  
SEC RULES COMMITTEE No. 63-12  
CLOSED-END INVESTMENT COMPANY COMMITTEE No. 36-12 RE: DRAFT ICI LETTER ON SEC TECHNOLOGY AND TRADING ROUNDTABLE

As we previously informed you, the SEC recently held a roundtable to discuss ways to promote stability in markets that rely on highly automated systems ("Roundtable").

Comments on the Roundtable are due to the SEC by Tuesday, October 23; attached is ICI's draft comment letter. If you have any comments on the draft letter, please contact the undersigned at [aburstein@ici.org](mailto:aburstein@ici.org) or by phone at 202-371-5408 by COB October 23.

The draft letter stresses the need for long-term investor involvement in discussions relating to addressing risks posed by technology. The draft letter notes that there was no long-term investor representation at the Roundtable or on an industry working group formed by the exchanges that provided recommendations on addressing risks posed by technology in advance of the Roundtable. The draft letter states that if decisions are going to be made regarding initiatives and proposals to address trading and technology, particularly those that may impact the tools used by funds when trading, long-term investors such as funds must be a part of that discussion.

The draft letter states that while the need to examine specific risks posed by technology is significant, it is critical not to lose sight of the need to examine possible contributing factors to recent market disruptions as well as the need to think more broadly about how the current market structure in the United States has evolved. The letter provides several examples of issues relating to technology that need to be examined including the increasing amount and complexity of order types, the increasing number of order cancellations in the markets, and the complexity in the current structure of the markets attributed to the sheer number of execution venues that exist.

The draft letter agrees that additional measures to supplement mechanisms already in

place to address risks raised by the use of technology are necessary. As additional measures are examined, the draft letter states that several basic principles should be considered. In general, an intermediary should have the ultimate responsibility for the orders sent to the market through its trading system including the design, development, deployment and operation of the system as well as the system's reliability, security and capacity. Similarly, an intermediary should ensure that a trading system and all modifications to the system are adequately tested before deployment and are regularly reviewed to ensure that the system and modifications are reliable.

The draft letter discusses several of the recommendations already set forth to address the risks posed by technology and trading including establishing "kill switches" that would allow limits to be placed on overall and/or categories of activity by market participants as well as mandating the use of "drop copies" to assist in the reconciliation of trading records. The draft letter urges the SEC to be vigilant in ensuring that mechanisms to address risks to the markets from technology be established promptly, and that these mechanisms are robust in nature.

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[Attachment](#)

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