



SEC EQUITY MARKET STRUCTURE ADVISORY COMMITTEE MEETING

OVERVIEW

For questions on the note below, please contact [Kwon Park](#) at (202) 547-3035.

Today, the SEC held a telephone [meeting](#) of the Equity Market Structure Advisory Committee (EMSAC) to consider the following recommendations: 1) the [access fee pilot \(Pilot\)](#); and 2) [trading venues regulation](#).

Key Takeaways

- EMSAC Members approved the Regulation NMS Subcommittee's access fee pilot recommendation. Jamil Nazarali (Citadel Securities) provided the sole dissent.
- EMSAC Members unanimously approved the NMS governance and FAQ technical specification recommendations made by the Trading Venue Regulation Subcommittee.
- The full EMSAC Committee will meet again on August 2nd to consider recommendations by the Customer Issue and Market Quality Subcommittees.

SUMMARY

Access Fee Pilot

Joe Ratterman, BATS Global Markets, Inc.

- The pilot recommends the following:
 - Three buckets (20 cents, 10 cents, and 2 cents) with a suggested population of 100 stocks in each bucket. The recommendation kept a market capitalization of above \$3 billion, and estimates that from 800 stocks, 300 will be included in the pilot and 500 in the control group
 - An implementation schedule with an initial rollout of 10 stocks in the first three months (data collection) with full implementation after those three months. The full duration of the pilot will run for two years and will monitor behavioral changes in the marketplace (amongst other metrics)
 - Limits the number of variables measured to produce straightforward results and to reduce confusion
 - Applies to protected quotes only
 - Does not cover inverted venues and ATs as current rule 610 does not apply to them

- Suggests ongoing monitoring and requires reporting every six months to terminate the pilot if there is an unexpected and significant deterioration in a specific predefined criteria
- The Subcommittee solicits comments on the following:
 - Inclusion of 2 cent buckets
 - Whether to include ATs and inverted venues
 - Whether to include ETFs

Open Discussion

Jamil Nazarali, Citadel Securities, LLC: The three-month data collection period will likely increase spreads and impact the liquidity provision. ETFs should be included. What are the predetermined criteria to measure whether the pilot should be discontinued? *Ratterman:* The list of criteria are laid out in the recommendation, and a report is due every six months to measure the pilot's progress. The initial rollout data collection period is more for operational purposes so that firms can adjust to changes on a small number of stocks before applying to all.

Richard Ketchum, FINRA: What market quality indicators will be measured? *Ratterman:* The pilot will measure a variety of data points, but we believe behavioral changes should be monitored closely.

Commissioner Kara Stein and Commissioner Michael Piwowar: Interested to hear the impacts of excluding inverted venues and ATs, and also ETFs.

Trading Venues Regulation

Eric Noll, Convergex Group

- The proposed changes to NMS plan governance recommends the following:
 - Expands to role of Advisory Committees and makes them more uniform
 - Implements a formal rulemaking process for electing representatives, and once established and operational, the members have authority to nominate their own replacement candidates
 - Expands and formalizes the role of the Advisory Committee to vote on plan matters and to vote formally on issues addressed by the NMS Operating Committee
 - Significantly narrows the use of executive sessions so they are reserved for matters that present a clear conflict or for potential or ongoing litigation of members
 - Allows formation of a working group, only to resolve particular issues. They must provide regular updates to the Full Committee
 - Changes the allocation of voting rights amongst SRO exchanges
- Please click [here](#) for additional details on the recommendation.

Open Discussion

Joseph Mecane, Barclays PLC and Manisha Kimmel, Thomsen Reuters: Rule filings and technical specifications are sequential and cannot be done in parallel. It is logistically challenging to publish rule filings before the technical specifications are issued.

Jamil Nazarali, Citadel Securities, LLC: The proposed exchange SRO voting allocation seems to favor small exchanges - what metric (i.e. market share) should be used instead to determine the amount of votes allocated to SROs? *Noll:* Using market share as the primary metric seems like an imperfect way to provide a balance of powers to exchanges.

Stein: With potential changes to NMS governance structure proposed, what can be done to strengthen partnerships before settling on this recommendation?

Piwowar: The NMS plan coincides with CAT NMS plan – I will review both comment files together when considering these plans.