



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 [meeting](#) of the Equity Market Structure Advisory Committee (EMSAC) to discuss the [Market Quality Subcommittee's recommendations](#) on issues of market quality, the [Customer Issues Subcommittee's recommendations](#) regarding data-driven approaches to understanding and improving investor confidence, and to hear updates from the Regulation NMS Subcommittee and the Trading Venues Subcommittee.

Key Takeaways

- Chair White revealed that the Committee Charter was extended for an additional six months, and Stephen Luparello (Division of Trading and Markets) said the next full Committee meeting will be scheduled for the first quarter of 2017.
- The full Committee approved all three recommendations presented by the Market Quality Subcommittee – to eliminate the halt and reopening auction process altogether, to widen price bands on market wide circuit breakers, and to have all exchanges open trading as close to 9:30am as possible.
- The Customer Issues Subcommittee's first recommendation to survey investor sentiment on equity markets was rejected by the full Committee, but the second recommendation to enhance order-handling disclosures and to modify Rule 605 and 606 was approved.
- The Reg NMS Subcommittee will make a recommendation related to Rule 611 in the near future, and the Trading Venues Regulation Subcommittee will work on recommendations to SRO liability rules, regulatory centralization, and consolidated market data.

SUMMARY

Opening Statements

[Chair Mary Jo White](#)

- Staff is reviewing the EMSAC Subcommittees' recommendations and taking them into consideration for future Commission actions regarding equity market structure.

- The Committee’s work and recommendations are invaluable to the Commission in seeking input to optimize equity market structure.
- Yesterday, the Commission renewed the EMSAC Committee charter for an additional six months, to allow the next Chair and Commission to utilize this vital resource when considering potential changes and enhancements to equity market structure.

Commissioner Kara Stein and Commissioner Michael Piwowar did not provide opening remarks.

Market Quality Subcommittee Recommendations to the Committee

Eric Noll, Convergex Group

- During volatile market conditions, the limit Up/limit Down (LULD) mechanisms and reopening auctions did not work effectively. The Subcommittee’s analysis concentrated on the reopening process and re-aggregation of liquidity – the conclusion was that reopening auctions simply do not and will not work as designed.
- First Recommendation:
 - Eliminate the halt and reopening process entirely, and move toward a mechanism of when the limit price is hit and struck for a period of time (4-minutes), the bands readjust around that limit price. The Subcommittee prefers a free market as opposed to trading halts and reopening auctions as participation in reopening is low for unsophisticated market participants.
 - The clearly erroneous rules need to be consistent with LULD bands in order to bring certainty to the market making community and other market participants.
 - LULD bands should start incorporating the concept of mean reversion.
- Second Recommendation: market wide circuit breakers should be widened to about 10%, and the Commission should consider looking at futures prices as opposed to cash prices.
- Third Recommendation: every exchange should try to open stock trading as close to 9:30am as possible.

Open Discussion on Market Quality

Jamil Nazarali, Citadel Securities, LLC: The retail community expressed strong support for the mean reversion concept, opening trading as close to 9:30am as possible, and widening the market wide circuit breakers. However, the 4-minute pause is too long and should be shortened.

Joseph Mecane, Barclays PLC: The 4-minute pause seems like a long period of time. Is the Subcommittee comfortable with increasing the market wide circuit breaker from 7% to 10%? *Noll:* Whether 4-minutes is appropriate is up for discussion. LULD mechanism will be applied only to stop runaway stocks and for markets to readjust over time.

Joe Ratterman, BATS Global Markets, Inc.: Will the mean reversion concept be applied symmetrically? *Noll:* Yes, the concept should be in place for upward and downward movements.

Reginald Browne, Cantor Fitzgerald & Co. and Maureen O'Hara, Cornell University: From an ETF perspective, a longer pause should be considered.

Gary Stone, Bloomberg Tradebook LLC: Are we asking the Commission to consider these recommendations in a separate NMS plan rulemaking, or for exchanges to include these concepts in Rule Amendments? *Noll:* The actual implementation is up to the Commission. The Subcommittee is merely recommending the preferred end state.

Richard Ketchum, FINRA: The pause should be at least 4-minutes, and if shortened, the second limit should be at 4-minutes. Using the futures price for circuit breakers is much cleaner and straightforward, but the price band should go beyond 10% if futures prices are used.

Votes

- The first recommendation was approved with one objection. The second and third recommendations were unanimously approved.

Customer Issues Subcommittee Recommendations to the Committee

First Recommendation:

Manisha Kimmel, Thomson Reuters: the first recommendation is proposed to understand and monitor investor confidence and trust in U.S. equity market structure. The SEC's Office of Investor Advocate (OIA) will implement the actual research methods and frame research questions.

Stone: This recommendation is outside the SEC's mandate and mission. The Commission should focus its resources on other issues related to its actual mission. *Kimmel:* OIA is charged with these tasks and this recommendation will not consume other resources. There are benefits to learning about investor confidence in equity market structure.

O'Hara: What can be actionable with the survey and its results (metrics)? *Nancy Smith, AARP:* OIA will look to whether there is a connection between market structure and investor perceptions about market participation. We should study why people decide not to participate in markets, as it is important for capital formation. This recommendation analyzes the 30,000 foot level versus how markets actually operate in a more granular level.

Ted Kaufman, Duke University Law School: This recommendation is a good first start. Implementation will not be easy, but it is important.

Nazarali: It is important that the survey be constructed and administered in a way that it takes into account investors who are happy with the general state of equity markets and do not respond to the surveys versus basing feedback only on responses from a small group of dissatisfied investors that do respond.

Brad Katsuyama, IEX Group Inc.: OIA has a mandate to conduct these types of surveys. Neutrality is important.

Ketchum: It is important to ask individual investors these questions rather than not asking at all.

Ratterman: Questions must be constructed carefully to ask investors about questions that they understand well.

Chester Spatt, Carnegie Mellon University: The central part of the SEC's mission is to focus on the fairness of markets. This proposal is a distraction to what should be the SEC's primary activity.

Second Recommendation:

Manisha Kimmel, Thomson Reuters: the second recommendation is proposed to enhance order-handling disclosures and to modify Rule 605 and 606.

Kevin Cronin, Investo Ltd.: How will you distinguish which orders are institutional versus retail?

Kimmel: Determining who the beneficial owner is as opposed to the entity placing the trade, and who receives customer disclosures and reports.

Ratterman: I support modernizing reports, but less information is sometimes more (beneficial) to retail investors.

Nazarali: Retail investors expressed concerns on order routing disclosures, as it may lead to misleading information.

Katsuyama: I am not worried about scaling back data disclosed to investors as other groups can make the data usable for unsophisticated consumers.

Votes

- The first recommendation was not approved (8 opposed, 7 for, 1 abstention), but the second recommendation was approved.

Regulation NMS Subcommittee Status Report to the Committee

Kevin Cronin, Investco Ltd

- The Subcommittee will meet today to discuss Rule 611, and a conclusive and firm recommendation will be presented in the near future.

Trading Venues Regulation Subcommittee Status Report to the Committee

Richard Ketchum, FINRA

- The Subcommittee is working on recommendations to SRO liability rules, regulatory centralization, and consolidated market data. On SRO liability issues, the Subcommittee will take advantage of SEC staff data analysis in making a recommendation. The Subcommittee will continue to pursue reviews of all three subjects.

Discussion of Next Steps

Stephen Luparello, Director, Division of Trading and Markets

- As the Committee charter has been extended for a minimum of six months, a full Committee meeting will be scheduled in the first quarter of 2017.