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April 5, 2017

Brent J. Fields
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-0609

Re: List of Rules to be Reviewed Pursuant to the Regulatory Flexibility Act (File No. S7-21-16)

Dear Mr. Fields:

The FIA Principal Traders Group ("FIA PTG")[1] appreciates the opportunity to comment on Regulation NMS ("Reg NMS") in response to Acting Chairman Michael Piwowar's request for input as the regulation is reviewed under Rule 610 of the Regulatory Flexibility Act.[2]

FIA PTG has been advocating for comprehensive reform of equity market structure for years and has specifically called for a holistic review of Reg NMS and its effects on markets since 2014.[3] We have also contributed comments to the Commission's Equity Market

1 FIA PTG is an association of more than 20 firms that trade their own capital on exchanges in futures, options and equities markets worldwide. FIA PTG members engage in manual, automated and hybrid methods of trading, and they are active in a wide variety of asset classes, including equities, fixed income, foreign exchange and commodities. FIA PTG member firms serve as a critical source of liquidity, allowing those who use the markets, including individual investors, to manage their risks and invest effectively. The presence of competitive professional traders contributing to price discovery and the provision of liquidity is a hallmark of well-functioning markets. FIA PTG advocates for open access to markets, transparency and data-driven policy and has previously made recommendations about a variety of equity market structure issues, including Regulation NMS (*See* https://ptg.fia.org/keywords/equity-market-structure).

2 *See* Securities Exchange Act Release No. 78845 (Sept. 15, 2016), 81 FR 64364 (Sept. 20, 2016); *see also* Michael S. Piwowar, Commissioner, Commission, Statement Regarding Publication of List of Rules to be Reviewed Pursuant to the Regulatory Flexibility Act (Sept. 15, 2016), *available at* https://www.sec.gov/news/statement/piwowar-statement-list-of-rules-regulatory-flexibility-act.html.

3 See FIA PTG *Equity Market Structure Position Paper* (Sept. 30, 2014) available at https://ptg.fia.org/sites/default/files/content_attachments/FIA%20PTG%20Equity%20Market%20Structure%20Postion%20Paper%20-%20final.pdf and FIA PTG Position Paper on Simplifying U.S. Equity Market Structure (Jan. 28, 2015) available at

Structure Advisory Committee ("EMSAC") on the need to simplify market structure and review Reg NMS Rule 610.d, known as the "Access Rule" and Rule 611 known as the "Order Protection Rule" or "Trade-through Rule."[4]

While we continue to support a comprehensive, data-driven review of Reg NMS and equity market structure, with the opportunity for public input, we recognize the magnitude of this undertaking. In the interim, we believe the elimination of both Rules 610.d and 611, along with the modernization of the best execution requirements, would simplify the markets in meaningful ways and provide other important benefits for the investing public.

In the years since we first began advocating for a review of market structure, the need has only become more pressing. Since the approval of the Investors' Exchange, LLC's ("IEX") exchange application and the reinterpretation of Reg NMS, the Nasdaq Stock Market, LLC ("Nasdaq") has proposed to revise order priority through the Extended Life Priority Order Attribute ("ELO") and two other exchanges have proposed latency mechanisms, including the NYSE MKT LLC ("NYSE MKT") Delay Mechanism, and the Chicago Stock Exchange, Inc. ("CHX") Liquidity Taking Access Delay ("LTAD") and Liquidity Enhancing Access Delay ("LEAD").

Each proposal has taken significant time and effort: by the exchanges to develop, by the industry to respond—multiple times in each case—and by the Commission staff to evaluate the merits of the proposal. While the Commission has yet to approve a proposal since IEX, we remain concerned that a variety of delays, combined with the Reg NMS requirement to route orders to the apparent best price risks turning the national market system into a hall of mirrors where it's impossible to know which prices are real and which are latent reflections.

This proliferation of latency mechanisms has increased the need for a comprehensive review of equity market structure and a consideration of the access rule and trade-through rule.

Why the access rule and trade-through rule specifically? Together with modernizing best-execution requirements, these represent the best options to reduce complexity and fragmentation in our markets.

Rule 610.d essentially requires each venue to collect and process data from every other displayed venue to determine whether incoming orders appear to lock or cross quotes on those venues. It has encouraged venues to develop hundreds of order types, dramatically increasing complexity.

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https://ptg.fia.org/sites/default/files/content_attachments/FIA%20PTG%20Position%20-%20Simplifying%20US%20Equity%20Market%20Structure.pdf.

[4] See letter dated May 8, 2015 available at https://ptg.fia.org/sites/default/files/content_attachments/SEC_EMSAC_Submission_%20050815.pdf and letter dated Oct. 20, 2015 available at https://ptg.fia.org/sites/default/files/content_attachments/2015-10-20%20SEC%20MSAC%20Submission.pdf

Rule 611 effectively requires all market participants to do business with all trading venues that display orders, regardless of their market share. This rule requires trading venues to establish and enforce procedures designed to prevent trades at prices worse than the best-priced quotes displayed by other venues. The result is elaborate routing mechanisms and dramatic growth in the number of exchanges and other trading venues in recent years, many of which account for minimal trading volumes. And while we fully support the order protection rule's underlying purpose of providing best execution, we believe that clarifying and modernizing brokers' best execution requirements would more simply and effectively accomplish this goal.

Moreover, beginning market structure reform with Rule 610.d and Rule 611 would provide meaningful simplification, reduce the proliferation of order types, reduce market fragmentation, and enhance investor confidence. With these improvements in place, the market will be stronger and healthier during the time it takes to complete a holistic market structure review.

We appreciate that other market participants recognize the need for substantive reform and have begun to echo our calls for a repeal of the Order Protection Rule.[5] We are hopeful that the Commission will give our comments serious consideration and engage with FIA PTG and other market participants on near-term steps that can be taken to address market structure reform.

If you have any questions about these comments, or if we can provide further information, please do not hesitate to contact Joanna Mallers (jmallers@fia.org).

Respectfully,

FIA Principal Traders Group

Joanna Mallers

Joanna Mallers
Secretary

cc: Michael S. Piwowar, Acting Chairman
Kara M. Stein, Commissioner

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[5] See SIFMA Comments to the SEC on the EMSAC Meeting and the Regulatory Flexibility Act (March 17, 2017) available at http://www.sifma.org/issues/item.aspx?id=8589965596.