Equity Markets Association

AN OPEN LETTER FROM EMA TO THE SEC AND STAKEHOLDERS

The U.S. Securities and Exchange Commission's Roundtable this week on Market Data and Market Access is timely and welcome.

We can all agree that, not unexpectedly, data and technology play a bigger role in the equity markets than they did when the foundational rules of market structure were established because all systems evolve over time, and it is appropriate for the SEC to periodically consider whether public policy is as well-tuned as possible to support our flourishing capital markets and protect investors. The Equity Markets Association appreciates the Commission's sincere consideration of stakeholder input and advice, as evidenced by this two-day public meeting.

The Roundtable is also timely for two other reasons:

First, it creates an opportunity for the Commission to receive information from stakeholders and the public and communicate its views about some market structure issues with stakeholders.

Second, it is an opportunity for the Commission and market participants to firmly ground market data discussions in the context of the interests of all investors.

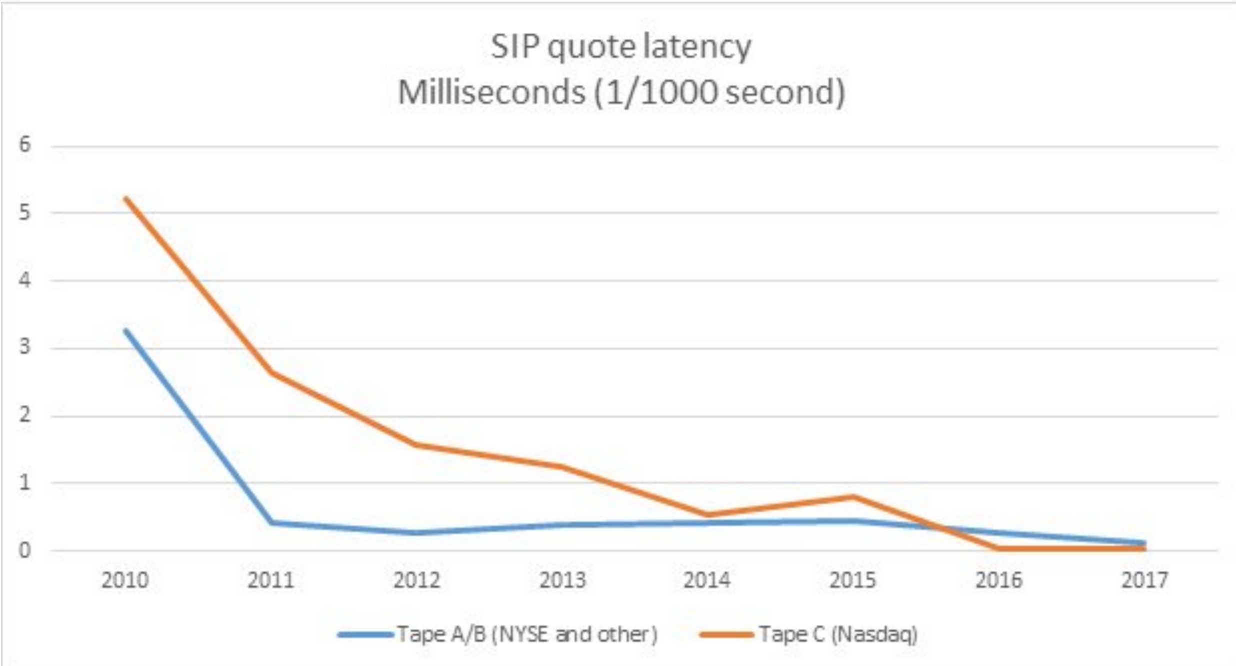
We agree that protecting the interests of individual investors (call them "retail," "Main Street," or "average") is a critical government interest. We are proud of the central role that exchanges play in making U.S. equity markets more accessible and fueling what can only be described as a Golden Age for investors who use the US equity markets, a Golden Age we think everyone agrees is critical to the national interest to allow to keep growing and expanding. For example, retail investing costs in the U.S. are a fraction of what they once were—trading, management, and advisory fees have all experienced massive compression thanks to technology and competition.

Here are the facts. Between 2000 and 2017, equity mutual fund fees and 401(k) equity fund expenses declined 40 percent and 42 percent respectively. ETF fees followed suit—declining 28 percent between 2009 and 2017, while average U.S. stock trade commissions are down 40 percent.

Advances and innovation in market data have contributed to this Golden Age. Individual investors today can access state of the art analytical tools and real-time market data to transact in securities at little or no cost. Large retail brokers pay just 17 cents per customer per month for real-time market data, as shown by a new study from Prof. James Angel, a Georgetown University expert.

Meanwhile, exchange market data revenues are modest, stable, and a small cost for the industry overall, as shown by a recent study by Prof. Charles Jones, a Columbia University expert. Although revenues are modest and a small cost for the industry overall, the processes to aggregate and normalize get more and more sophisticated each year.

Exchanges have meanwhile continued to invest in people, processes and technology to improve core market data infrastructure such as the Securities Information Processors (SIPs), which consolidate market data from all the trading platforms and create a national "best price" that protects investors. These SIPs have been getting faster. The latency of a quote on the UTP Plan portion of the SIP has dropped 99.7 percent since 2010 to 16 microseconds—that's less than 0.02 percent of the time it takes for the average eye to blink. The SIPs have become so fast that their data are acceptable for all regulatory purposes.



To be sure, entities that choose to operate major trading desks or algorithmic trading firms transacting in billions of dollars of trades, whose freely-chosen business models are to vacuum up massive amounts of data and often hold stocks for only a few millionths of a second, create economic demand for sophisticated market data. That demand has fueled a market for proprietary data products that leading experts, including the primary US competition regulator, have found is intensely competitive. It should also be noted that these entities, although they seek to produce profits for themselves, also benefit other investors by increasing liquidity and decreasing spreads, which decrease the costs of trading for other investors.

But individual investors buying or selling stocks, ETFs or mutual funds in their investment, retirement, or brokerage accounts do not participate in the same market for these data products—except as the low or no-cost beneficiaries of these products. Put differently, retail investors who make relatively few trades per year simply do not have the same data needs as, for example, major trading desks or algorithmic trading firms.

The US equity markets have advanced and thrived because exchanges have been able to harness technology to create better and faster data products that have benefited all investors. This is exactly as it should be if the US wishes to remain the premier equity capital markets destination.

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