May 10, 2013

Via Electronic Mail

Teresa Rodríguez Arias
International Organization of Securities Commissions
Calle Oquendo 12
28006 Madrid
Spain

Re: Consultation Report: Regulatory Issues Raised by Changes in Market Structure

Dear Ms. Rodríguez Arias:

The Global Financial Markets Association ("**GFMA**")[1] welcomes the opportunity to comment on the International Organization of Securities Commissions' ("**IOSCO**") *Consultation Report on Regulatory Issues Raised by Changes in Market Structure* (the "**Consultation Report**"), published March 2013. GFMA appreciates IOSCO's continued interest in this important area and believes that, as securities markets evolve and new technologies continue to develop, it is critical that regulators regularly consider existing regulatory requirements, with a goal of maintaining efficient and robust market structures that protect investors while facilitating active competition among trading spaces. GFMA provides its reactions and comments to the Consultation Report's recommendations and questions below, each from a U.S. and European markets-perspective.[2]

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[1] The Global Financial Markets Association (GFMA) brings together three of the world's leading financial trade associations to address the increasingly important global regulatory agenda and to promote coordinated advocacy efforts. The Association for Financial Markets in Europe (AFME) in London and Brussels, the Asia Securities Industry & Financial Markets Association (ASIFMA) in Hong Kong and the Securities Industry and Financial Markets Association (SIFMA) in New York and Washington are, respectively, the European, Asian and North American members of GFMA. For more information, visit http://www.gfma.org.

[2] With respect to U.S. markets, GFMA also refers IOSCO to letters its U.S. member, SIFMA, has provided to the U.S. Securities and Exchange Commission ("**SEC**") for further detailed and thoughtful insights on this topic. *See* Letter from Ann Vlcek, SIFMA, to Elizabeth M. Murphy, SEC (Feb. 18, 2010), (regarding the SEC's proposed rules on the regulation of non-public trading interest), *available at* http://www.sec.gov/comments/s7-27-09/s72709-47.pdf; Letter from Ann Vlcek, SIFMA, to Elizabeth M. Murphy, SEC (Apr. 29, 2010) (regarding the SEC's Concept Release on Equity Market Structure), *available at* http://www.sec.gov/comments/s7-02-10/s70210-167.pdf; Letter from James T. McHale, SIFMA, to Elizabeth M. Murphy, SEC (Aug. 17, 2010) (regarding the SEC's proposed rule requiring a Consolidated Audit Trail), *available at* http://www.sec.gov/comments/s7-11-10/s71110-63.pdf.

I. Recommendation 1 and Related Questions

Recommendation 1.1. ***Regulators should regularly monitor the impact of fragmentation on market integrity and efficiency across different trading spaces and seek to ensure that the applicable regulatory requirements are still appropriate to protect investors and ensure market integrity and efficiency, including with regard to price formation, bearing in mind the different functions that each trading space performs.***

Recommendation 1.2. Regulators should regularly evaluate the regulatory requirements imposed on different trading spaces and seek to ensure that they are consistent (but not necessarily identical) across spaces that offer similar services for similar instruments.

Question 1. Does the evolving market fragmentation challenge the relevance, effectiveness or implementation of current regulatory requirements? If so, which ones and how are they impacted?

Question 2. Are you aware of material differences in regulatory requirements between different trading spaces that from your point of view are not justified and create regulatory risks and unfair competition? For example, are there regulatory requirements that apply to one type of trading space in your jurisdiction and currently do not apply to others but, in your view, should apply to others that offer similar services? Please describe.

Question 3. Do you think that the price formation process has been deteriorated or has been improved as the result of market fragmentation? If so, please explain how.

A. U.S. Markets Perspective

GFMA believes that regulation should foster competition among trading spaces, or market centers, and do so in a fair and neutral manner. Equity market structure in the U.S. is governed by Section 11A of the Securities Exchange Act of 1934 (the "**Exchange Act**"), which sets out the principles of the U.S. national market system ("**NMS**"). In Section 11A, Congress legislated a system of competing market centers linked through technology. These principles include:

- economically efficient execution of securities transactions;
- fair competition among brokers and dealers and between markets;
- availability of quotation and transaction information;
- practicability of executing investors' orders in the best market; and

- an opportunity, consistent with economically efficient execution, and the practicability of executing investors' orders in the best market, for investors' orders to be executed without the participation of a dealer.

These principles may be challenging to reconcile at times. For example, inter-market competition implies a more fragmented market, which may require greater efforts by brokers to achieve best execution. That said, GFMA believes these NMS principles are the foundation of a U.S. market system that promotes competition, efficient pricing, best execution, market transparency, and fair and orderly markets. Any reforms to the U.S. regulatory structure should remain consistent with these guiding principles.

Robust competition and innovation are hallmarks of the U.S. equity markets. Regulation that unnecessarily limits competition or that creates an uneven competitive landscape dampens the incentive to innovate. Regulation should encourage fair completion among markets, because competition inevitably leads to greater choices for investors, which facilitates efficient pricing and best execution of orders.

As a strong proponent of competition, GFMA does not believe that there is a "right" number of trading venues or that market fragmentation, in and of itself, impairs the price formation process. In response to Question 3, GFMA does not believe the price formation process has deteriorated as a result of fragmentation. Indeed, market fragmentation is a byproduct of robust market competition, and the benefits of competition are well known. U.S. markets have seen a greater dispersion of order flow across market venues, evidence of healthy inter-market competition. And this competition has yielded great benefits to investors. Execution speeds have increased, enhancing the ability of investors to obtain best execution of orders. Commissions are at record low levels, and bid-offer spreads are tighter than ever before. Inter-market trade-through protection under Rule 611 of Regulation NMS (the "**Order Protection Rule**") has facilitated efficient private linkages between trading venues, replacing antiquated legacy systems and furthering the national market system goals of linked markets.

However, and in response to Question 2 in particular, GFMA is concerned that aspects of the regulatory structure have not kept pace with the revolutionary changes to U.S. markets that have been brought about by technological innovation. In the absence of regulatory reforms, these legacy frameworks will serve to stifle innovation and competition, hinder further market development and disadvantage our markets and U.S. investors. Technological innovation has dramatically changed the way markets operate. U.S. markets have evolved from a small number of centralized, floor-based exchanges to multiple, electronic markets that operate as exchanges or alternative trading systems ("**ATSs**") run by broker-dealers. Likewise, technology has spurred innovation in broker-dealer activity in ways that blur the distinctions between broker-dealers and exchanges. Notwithstanding this blurring, these trading venues compete under different regulatory frameworks and disparate rule sets that create an uneven competitive landscape. Indeed, the existing regulatory framework may encourage further fragmentation as trading venues seek to capitalize on the advantages of one set of regulatory requirements over another.

There are significant differences in regulatory requirements in the U.S. among trading venues that have created inappropriate competitive imbalances. In the U.S. regulatory structure, exchanges are "self-regulatory organizations" ("**SROs**") that are empowered to oversee and regulate their member broker-dealers. Those same broker-dealers may operate ATSs or other trading mechanisms that compete with the exchanges. The clear conflicts of interest this causes are rampant and will only worsen if left unresolved.

U.S. exchanges' status as SROs in particular provides them with inappropriate competitive and regulatory benefits that are not available to brokers. For example, because of their status as SROs, courts have granted exchanges immunity from civil liability for certain actions that may be considered incidental to regulatory activity. Exchanges have also adopted in their rulebooks strict limitations of liability—which are not subject to exceptions or negotiations. Together, these allow exchanges to undertake business activities without fear of material legal repurchasing should they cause private damages. Competing trading centers without these protections, however, must consider the risk and cost of private liability in everything they do: from offering new services, implementing and testing new technologies, to setting prices. This creates a competitive imbalance that distorts the market.

Another unfair competitive benefit enjoyed by exchanges in the U.S. as a result of their SRO status is their power to participate in, and at times dictate, the design of the market structure that applies to their competitor trading centers. Because the exchanges are SROs, the U.S. Securities and Exchange Commission (the "**SEC**") often assigns the exchanges the power to design and ultimately implement the SEC's new market structure initiatives. Given that the exchanges are for-profit businesses, their role in designing market structure initiatives raises concerns about the potential conflict between advancing their competitive position against other trading centers and providing benefits to the market as a whole.

B. European Markets Perspective

In response to Question 1, we note that the regulatory requirements relating to market integrity and efficiency that were developed for certain types of trading spaces may not necessarily be appropriate for other trading spaces that have subsequently developed. It is therefore appropriate to review the applicable regulatory requirements in light of market fragmentation. We support the continuous monitoring of developments by regulators and policy-making based on the evidence gathered.

Nevertheless, we note that MiFID I explicitly anticipated, and indeed enabled fragmentation, and thus addresses this development, with two exceptions: it failed to anticipate the need for regulation with respect to market data and open access between market infrastructure providers.

Market fragmentation has challenged the effectiveness of regulatory requirements relating to market data. The absence of mandatory standardization, consolidation and cost control measures has resulted in market data being provided in a heterogeneous, overly costly, and inefficient manner. The absence of consolidated and sufficiently granular market data has moreover led to misleading interpretations regarding the relative scale of over-the-counter ("**OTC**") versus on-exchange equity trading and consequently to misguided policy proposals.[3]

MiFID I provided for competition and choice between trading systems and while this competition has brought benefits, including reduced trading costs (see below), the ensuing fragmentation has brought with it a need for additional measures to ensure the efficient functioning of the market. Fragmentation has thus highlighted the need for regulation that recognizes and differentiates the unique function of intermediaries as distinct from that of trading systems. Intermediaries play an important role in expediting and matching buy and sell interest in circumstances where investors do not wish to have their orders exposed to the market (*e.g.*, where the trades are large in scale or illiquid, or where the counterparty wishes to be anonymous). To effectively support investors' trading requirements on a best execution basis, intermediaries must be allowed discretion over how orders are matched and the ability to limit access to their trading system to their clients. In this context, it is particularly important that regulation recognize the unique need for intermediaries to be able to temporarily take on their clients' positions against their own risk books.

GFMA believes that the regulatory differences between OTC, exchange, and non-exchange trading market systems have been overstated. OTC is, for instance, subject to extensive conduct-of-business (including conflicts-of-interest) rules and the same post-trade transparency requirements as regulated markets and multilateral trading systems. The waivers from pre-trade transparency available to venues close the gap with OTC. OTC activity that is systematic internalizer activity is moreover required to be pre-trade transparent.

Regulation should recognize the differences between OTC and exchange and non-exchange trading market systems in the service provided to investors. To effectively support investors' trading requirements on a best execution basis, intermediaries must be allowed discretion in terms of both access to, and execution of, trading.

In response to Question 3, we have found no evidence to suggest that price formation has been impaired by market fragmentation. We are aware of the theoretical arguments that fragmentation may be detrimental to liquidity due to economies of scale and network effects. However, these academic arguments presume, sometimes explicitly, a beneficent provider of matching services rather than one which exerts pricing power to

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[3] It is often reported that the proportion of European equity trading that is OTC is approximately 40%. The 2011 AFME Report on The Nature and Scale of Equity Trading in Europe, *available at*, http://www.afme.eu/Divisions/Equities.aspx, demonstrates that this figure is incorrect and that the proportion of equities trading represented by "real" or "addressable" OTC trades is actually 16%.

corrupt the effect. Thus our observations suggest that by reversing that tendency, fragmentation improves liquidity by encouraging inter-market competition and innovation, as evidenced by lower trading fees and more efficient trading technologies.

According to analysis included in a Review commissioned by the UK government as part of its Foresight Project, trading costs have shown a dramatic decline in recent years. For instance, referencing the 2000-2010 period, the Review shows that the bid-ask spreads for S&P 500 stocks declined from ca. USD 0.0250 to USD 0.0125, a reduction of 50%, and that market depth (measured in terms of available stock) for the S&P 500 stocks increased from ca. 2000 to 4500.[4] In the report, "Monitoring prices, costs and volumes of trading and post-trading services," prepared for the European Commission by Oxera,[5] it is clear that the costs of on- and off-book trading in equities expressed as a cost per transaction have decreased significantly (60% and 77%, respectively) between 2006 and 2009 (from EUR 1.18 to 0.47 per on-book transaction and from EUR 1.19 to 0.26 per off-book transaction).

II. Recommendation 2 and Related Questions

Recommendation 2. In an environment where trading is fragmented across multiple trading spaces, regulators should seek to ensure that proper arrangements are in place in order to facilitate the consolidation and dissemination of information as close to real time as it is technically possible and reasonable.

Question 1. What options are available to manage the issues associated with data fragmentation in a competitive environment?

Question 2. What conditions, if any, should govern access by investors to consolidated market data?

Question 3. Are there other challenges (technical, regulatory, prohibitively high costs) with regard to creating and/or accessing consolidated market data? What if anything, should be done to address these challenges?

Question 4. What views do you have on the relative merits of a single consolidated tape mandated by the regulation versus multiple competing tape providers? Please elaborate.

[4] *See* Albert J. Menkveld, Electronic Trading and Market Structure (Aug. 10, 2011), *available at* http://www.bis.gov.uk/assets/foresight/docs/computer-trading/11-1234-dr16-electronic-trading-and-market-structure.pdf.

[5] *Available at* http://ec.europa.eu/internal_market/financial-markets/docs/clearing/2011_oxera_study_en.pdf.

A. U.S. Markets Perspective

GFMA supports the consolidation and the dissemination of a rich market data stream as a means of addressing the potential negative effects of fragmentation, as well as linkages between markets and best execution principles, as a means of ensuring customers receive best execution of their orders. The U.S. has a well-developed and highly reliable system for the consolidation and dissemination of quotations and trades in the national market system, although there are aspects of the system that merit improvement.

The quality and integrity of market data is not an issue in the U.S. However, and in response to Questions 2 and 3, while market transparency continues to increase for institutional market participants, GFMA remains concerned about the disparate level of transparency afforded to retail investors. While decimalization has reduced spreads to the benefit of all investors, it has led to decreased size at the national best bid and offer ("**NBBO**"). Institutional investors are more apt to have technology that allows them to aggregate size at a rapidly changing NBBO or to access individual market data feeds that show depth of book beyond the NBBO. But these tools and private data feeds are available or affordable to retail investors to a much lesser extent. In the U.S., retail investors largely rely only on the "top of book" data from the consolidated tape when making investment decisions. But this data may be insufficient because it does not include "depth of book" market data that is available but generally too expensive for the majority of retail investors.

It is becoming more important that all investors have access to quality market data at reasonable prices. In addition, as exchanges have become for-profit entities with greater incentives to charge premium pricing for the most useful market information, it is critical that regulators take steps to support technology benefits for all investors, particularly with respect to enhanced market data. Regulators should require or provide incentives for improvement in the quality of data that is available at low cost to all investors.

GFMA also believes that there should be a reasonable relation between the costs associated with producing market data and the fees charged for such data. In the U.S., there is a great lack of transparency with regard to how market data fees are determined. With faster and improved technology, the cost to produce and disseminate market data should be trending down, but has instead continually moved up. A cost-based market data fee process, subject to a transparent fee-setting, would result in lower market data fees, greatly benefitting investors.

In response to Question 4, some have raised concerns regarding the cost and speed of the "top of the book" data provided by securities information processors (the "**SIPs**"). Greater competition among providers of market data may be a solution. Some have suggested that regulators should facilitate the creation of additional market data consolidators that would compete on fees. Alternatively, others have suggested that, rather than requiring broker-dealers to purchase and provide consolidated market data to their customers at the point of trade decision, the SEC should allow individual broker-dealers to purchase direct feeds from exchanges and consolidate the data themselves—thus reducing costs; although that solution would require consideration of the exchanges' fee-setting for market data products, as discussed above. These suggested approaches are designed to address the concern that SIPs do not have competitive pressures to improve service, contain costs or compete on price.

B. European Markets Perspective

One of the main unintended consequences of MiFID I has been data fragmentation. The lack of standardization and increasing cost of market data has generated much debate on the need for a standardized, consolidated data stream. Unfortunately, this debate has been almost entirely focused on post-trade transparency although pre-trade transparency is equally, if not more, important. There has also been insufficient focus on the processes and regulatory requirements, including mandatory data standardization, aggregation and dissemination in a common format.

Given the vested interests that exist with the current fragmented system and the consequent failure of voluntary industry action, the cost and data quality issues raised (including the emergence of misleading reports regarding the relative scale of OTC trading) will require regulatory mandates for data standardization, consolidation and cost controls.

Market data is a public benefit and should ideally be provided at cost. It is an essential component to achieving best execution. However, we recognize the need for a cost structure that incentivizes continual improvements in the service delivered. Thus we recognize that a fee based on the cost of consolidation plus a reasonable and transparent return is appropriate. Price should be based on the cost of production and not on pricing power of the providers, which is currently the case.

A possible solution may be a quasi-governmental or regulatory price-setting body that ensures continually decreasing costs over a given period until costs reach an appropriate level and cease to act as an impediment to the market's growth. The potential to charge excessively for data bundled with other services might also be avoided by appropriate checks and balances on making key data available at capped levels.

The limited progress to date of voluntary industry initiatives, including the European Consolidated Tape Group, COBA, FPL's initiative and FESE's Market Model Typology work, reflects the vested interests in the status quo.

The key challenge is that the European Commission policy of preserving an element of competition in the provision of consolidated data appears to have made it reluctant to appoint a single consolidated tape provider. This reluctance and resulting uncertainty as to the conditions of data standardization, consolidation and dissemination has in turn disincentivized potential providers from stepping forward. Multiple, ultimately futile attempts to develop a single consolidated tape have proven that that this is not something the industry can do on its own—regulatory intervention is required.

In response to Question 4, we support a consolidated tape operated by a single for-profit commercial entity for a limited period on grounds that a consolidated tape operated by a single non-profit entity in perpetuity is unlikely to result in a continually improving and cost-efficient service; and that a consolidated tape operated by multiple competing commercial providers, while theoretically the more pro-competitive approach, will inevitably lead to divergence of data and perpetuate the lack of clarity and consensus that is the root problem driving the need for a consolidated tape. In the context of the single-entity commercial provision of the consolidated tape subjected to retendering, it is crucial that EU regulators both accept market participant input on a request for proposal and responses to it and reduce the power of factors that might result in the winner of the first request for proposal process becoming so advantaged over potential challengers that they win the role in perpetuity. Key to this is forcing all venues to adopt and continue to conform to standardized data feeds. Otherwise, the costs of remaining abreast of the increasingly divergent feeds acts as a material impediment to competition. That standard must be maintained and developed to accommodate evolving market practices, but it must be done in a manner that removes excess influence or control from the venues or the appointed consolidated tape provider.

III. Recommendation 3 and Related Questions

Recommendation 3. Where markets are fragmented, regulators should consider the potential impact of fragmentation on the ability of intermediaries to comply with applicable order handling rules including, where relevant, best execution obligations, and take the necessary steps.

Question 1. Should existing order handling rules, such as best execution, be re-examined in the context of fragmented markets? If so, in what way?

Question 2. Do you think that rules relating to the disclosure of order handling practices by investment firms are appropriate to facilitate compliance with and evaluation of 'best execution'?

Question 3. Are there any other appropriate 'order handling' tools that should be considered in the context of fragmented markets?

A. U.S. Markets Perspective

GFMA agrees that, in fragmented markets, it is important that regulatory safeguards are in place to ensure that orders are appropriately handled and, in particular, that best execution obligations are met. GFMA believes that this has been successfully accomplished in the U.S. The Order Protection Rule, by prohibiting trade-throughs, is an effective supplement to the duty of best execution in policing execution quality in the markets. In response to Question 2, GFMA believes that the Order Protection Rule is a more certain means of protecting investors than disclosure alone.

In response to Question 3 and more generally, GFMA notes that order handling has been impacted by a number of practices that cause brokers to seek to avoid certain market venues, consistent with best execution obligations. These practices include maker-taker liquidity fee structures and access fees charged for routing an order to a particular market. In order to obtain best execution for a customer, a broker should be able to consider not just where among fragmented markets the best price is available, but whether a better price would result in a better execution after considering any taker fees and access fees.

B. European Markets Perspective

The current client order handling rules, including on best execution, were drafted cognizant of expected market fragmentation. The rules remain appropriate.

Generally GFMA members believe that sufficiently detailed data is already available on the execution policies adopted by investment firms to allow verification of those firms' compliance with existing best execution requirements. We are unaware of specific requests for that information to be augmented. We would, however, welcome a dialogue with our members' clients or their own trade associations on any requirements to change the data content.

IV. Recommendation 4 and Related Questions

Recommendation 4. Regulators should regularly monitor the impact of fragmentation on liquidity across trading spaces.

Regulators should seek to ensure that applicable regulatory requirements provide for fair and reasonable access to significant sources of market liquidity on the exchange and non-exchange trading market systems.

Question 1. Do you have views on regulatory mechanisms and specific arrangements that might be needed to help ensure that investors have an appropriate, fair and reasonable access to liquidity in both exchange and non-exchange trading market systems? If yes, please elaborate.

Question 2. Are there any other issues resulting from the market fragmentation that should be addressed with respect to access to liquidity on exchange and non-exchange trading market systems?

A. U.S. Markets Perspective

In general, there is fair and reasonable access to significant sources of market liquidity on exchange and non-exchange trading market systems in the U.S., as mandated by SEC rules.

Nevertheless, as noted above, GFMA is concerned that the pricing models and rebates applied by different market centers may have a significant impact on market structure and should be a focus of consideration. For example, concerns have been raised that maker-taker pricing subsidizes professional traders. High rebate fees often imply a high charge for taking liquidity, which is in turn paid by investors seeking execution of their orders. Even if these fees are not an actual limitation on the ability to access liquidity, they affect routing decisions in terms of choosing between trading venues. As a result, broker dealers spend significant resources analyzing the impact of taker fees on execution quality. Likewise, broker-dealers spend significant resources seeking to avoid the market access fees of particular trading venues. Regulators should consider the impact of access fees on order routing, execution practices, and market quality.

B. European Markets Perspective

Investors have fair and reasonable access to liquidity in both exchange and non-exchange trading market systems.

We reiterate that to enable their fulfillment of best execution obligations, intermediaries (as compared to regulated markets and multilateral trading systems) require discretion in providing access to liquidity.

We note that retail investors typically access the market collectively as institutional investors and to a lesser extent individually as segregated or self-managed investments. Our market structure must accommodate both approaches, specifically and explicitly acknowledging the differing execution approaches appropriate to smaller orders and large institutional-sized orders. We would further note that an anomaly of the current MiFID rules on systematic internalizers disadvantages retail investors by prohibiting intermediaries from offering routine price improvement for their smaller orders.

V. October 2011 Recommendations and Related Questions

October 2011 Report Recommendation 4. Regulators should continue to assess the impact on market integrity and efficiency of technological developments and market structure changes, including algorithmic and high frequency trading. Based on this, regulators should seek to ensure that suitable measures are taken to mitigate any related risks to market integrity and efficiency, including any risks to price formation or to the resiliency and stability of markets, to which such developments give rise.

October 2011 Report Recommendation 5. Market authorities should monitor for novel forms or variations of market abuse that may arise as a result of technological developments and take action as necessary. They should also review their arrangements (including cross-border information sharing arrangements) and capabilities for the continuous monitoring of trading (including transactions, orders entered or orders cancelled) to help ensure that they remain effective.

Question 1. Are there any regulatory requirements that should be examined in addition to the recommendations already made in the above mentioned IOSCO reports in light of the evolution of market structure and trading strategies in the very specific context of market fragmentation? If so, please describe.

Question 2. Are there any other issues associated with the fragmentation of markets that have not been mentioned in the current report?

Question 3. Are there any changes to regulatory structure that you would recommend to regulators in your jurisdiction to address issues raised by market fragmentation? If yes, please elaborate.

A. U.S. Markets Perspective

GFMA supports regulatory requirements that further market integrity, including through the efficient and effective oversight of the markets. One key tool that will support regulators in their surveillance efforts in the U.S. is the Consolidated Audit Trail ("**CAT**"), currently in development. In 2012, the SEC adopted a rule requiring the SROs to develop a plan to create a consolidated audit trail for all national market system securities. The CAT will capture and record detailed information about every quotation and trade as well as each material event in the lifecycle of an order—including how it is routed through fragmented markets.

The CAT will permit the SEC and the SROs to more effectively regulate activities across markets and market participants, as well as significantly enhance the ability of regulators to monitor and enforce regulatory obligations under the federal securities laws. In addition to its use in regulatory enforcement, the CAT will allow the SEC to quickly reconstruct market events to better understand the causes of disruptions. Further, as a source of real data regarding how the market structure actually operates, it will allow the SEC to study vast amounts of actual data when considering new potential rules, and examine how those rules might impact market activity.

While the CAT is currently in the SRO development stage, and there are many details to be worked out in establishing the CAT, it will undoubtedly be a powerful tool both in the enforcement of regulatory standards and the development of market structure regulation.

B. European Markets Perspective

Referring to the IOSCO consultation on regulatory issues raised by the impact of technological changes on market integrity and efficiency, we reiterate our belief that technological developments have generally had a positive impact on financial markets, including on information processing and the development of new trading strategies such as high-frequency trading. High-frequency trading presents an additional set of challenges, which means that firms and venues must ensure their risk controls are sufficiently capable of dealing with the risk presented. In this context, we believe there would be value in coordinating circuit breakers and limit-up / limit-down systems between different venues but are concerned by more blunt policy proposals aimed at slowing down trading or forcing liquidity provision.

GFMA reiterates that it supports the need for regulatory intervention to ensure the standardization, consolidation and dissemination of market data at reasonable cost.

The fragmentation of markets and limited progress made so far by infrastructure providers highlight the need for mandatory interoperability between the central counterparties ("**CCPs**") serving those markets. The fact that incumbent national exchanges either own or exert material control over the CCPs that clear their executions results in those CCPs resisting the narrow economic rationale of interoperability in favor of protecting the dominance of their parent exchange. Interoperability is essential to enable market participants, and thus their clients, to consolidate and rationalize their clearing needs at their CCP of choice.

Fragmentation has led exchanges to seek to undercut one another's tick sizes to attract volume and thus fees. Some tick sizes have as a result become too small, impacting the order books' ability to aggregate liquidity at a price point. We believe that a mandatory set of tick tables should be prescribed. As there is no optimal solution for a stock's tick size that exists beyond a point in time, the maxim should be "not too big and not too small" for that stock's trading patterns. A more methodical calibration of these tables and the method of allocating a stock to a particular table can be finessed by an appropriately divergent group over time. Rapid adoption of such a set of tables would be a significant improvement over the chaotic and corrupted status quo that prevails in Europe.

In response to Question 3, we note that the focus of European policy makers has been on the potential problems of fragmentation rather than on its benefits. A prime example of the latter has been the emergence of a more resilient U.S. market (as compared to Europe) in the event of a major exchange outage. Europe largely fails to benefit from this removal of a single point of failure due to the manner in which key indices are calculated. Because key indices are predominantly owned by a small number of exchanges, those products are not traded on competing venues. Thus when the contributing exchange fails, the index becomes broadly unavailable, and people withdraw from the market. It is worth noting that many larger market participants have proprietary capabilities to calculate index values during such periods by substituting the prices from venues that continue to trade. Licensing constraints prevent dissemination of these prices and create an unlevel playing field between investors, exacerbating the reluctance to continue to participate in the market by those without such capabilities.

The benefits of fragmentation and competition (and the detrimental impact of legislation that permits the abuse of market power) are also evident from the limited use and pricing of closing auctions in the U.S. compared to Europe, where, for example, the increases of the price of closing-auction relative to continuous trading that we have seen at some national exchanges suggest an abuse of pricing power. In this context, the cliff-like (all-or-nothing) structure of fee discounts provides a powerful incentive to direct flow to those overly expensive closing auctions.

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Thank you again for the opportunity to provide our views on the Consultation Report. We would be pleased to discuss any of these comments in further detail, or to provide any other assistance that would help facilitate your review and analysis. Please do not hesitate to contact us should you have any queries.

Sincerely,

Vickie Alvo
Executive Director
GFMA