SIFMA Addresses High-Frequency Trading, Other Market Structure Issues and Presents Considerations for Regulatory Change in New White Paper

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Washington, DC, December 13, 2011—SIFMA today released a white paper addressing "high-frequency trading" (HFT), a term that has become a catch-all for a number of different computer-based trading strategies. The paper notes the lack of a clear definition for high-frequency trading, but seeks to address the concerns being raised by members of the public and other market participants regarding HFT. The paper discusses current regulatory efforts to strengthen market structure, areas where regulators should conduct further study and possibly address through regulatory action, and regulatory proposals that SIFMA believes should not be pursued.

"Confidence in our markets is the foundation for market efficiency, capital formation, economic growth and job creation," said Randy Snook, SIFMA executive vice president for business policies and practices. "High-frequency trading, while attracting many headlines over the last couple years, is not clearly understood. With this white paper, we're seeking to help regulators, policy makers, and the investing public better understand the benefits of computer-based trading strategies, while also identifying behaviors that warrant further study and possibly regulatory action."

The transition to an electronic securities market, catalyzed by recent regulatory reforms, has significantly benefited all investors. Market quality has improved concurrently with changes in equity market regulation and technological advances, including the rise of computer-based trading. U.S. equity markets are now characterized by robust competition among trading venues and market participants, increased efficiencies due to automation of trading processes, and faster execution speeds. Investors, including retail investors, enjoy more liquidity, narrower spreads, and lower costs in this market than at any time before. Nonetheless, SIFMA notes that there may be valid concerns raised regarding computer-based trading.

SIFMA's white paper identifies a number of regulatory measures that have been put into place or are currently being finalized through the rulemaking process that it believes have or will strengthen market structure and should contribute to investor confidence.

SIFMA also identifies other areas that it believes may warrant further study and possible regulatory action. Those areas include:

- Limits on excessive market data traffic;
- Ensuring market data quality;
- Maker-taker pricing/rebates and access fees;
- Market maker incentives and obligations; and
- Additional empirical studies, including:
    - Examining micro-level volatility;

- Identifying secular changes related to the accelerating news cycle; and
- Identifying particular high-frequency trading behavior that may contribute to undesirable market volatility.

Lastly, SIFMA's white paper points out a number of possible proposals that it believes should not be pursued as they could have significant unintended negative consequences. These include:

- Transaction taxes;
- "Banning" high-frequency trading or other forms of computer-based trading;
- Imposing artificial limits on technological advances; and
- A trade at rule.

The white paper can be found at the following link:
http://www.sifma.org/issues/item.aspx?id=8589936694

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