**Split to Restructure Equity Market**

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The [SEC’s access fee pilot](https://www.sec.gov/rules/proposed/2018/34-82873.pdf) is a very big deal in restructuring the equity market. I applaud the Commission for daring to touch this controversial topic about broker-dealers’ best execution and [conflicts of interest](http://sbufaculty.tcu.edu/mann/alonefeb99.pdf) with their customers. It involves recalibration of maximum rebates that exchanges can offer. It will have significant order-routing implications, where smaller trading platforms (e.g. [IEX](https://www.ft.com/content/390417f6-02c3-11e8-9650-9c0ad2d7c5b5)) are seemingly teamed with some [buy-side](https://www.sec.gov/comments/s7-05-18/s70518-3393100-162164.pdf) firms in fight against the large stock exchanges and high frequency trading firms ([HFT](https://www.fca.org.uk/publication/occasional-papers/occasional-paper-16.pdf)). Huge profits are at stake, shall the rule be skewed one way or another.

Should investor protection be the sole consideration in policy direction? Yet, which investors (institutional or retail) should the SEC protect in this highly [fragmented market](https://tabbforum.com/opinions/living-in-the-laboratory-understanding-the-secs-transaction-fee-pilot)? Should [ETFs](https://www.reuters.com/article/us-usa-regulation-etf/u-s-etf-providers-cry-foul-over-secs-fee-experiment-idUSKCN1IG2OS), endowments and retirement funds be crafted out from institutional population when making policy choice? The arguments can go on and on, but let’s not forget the contributors to the economic goal of capital formation. A healthy market needs depth, quality, and choices to allow orders in the public markets to interact with those in the proprietary systems. Nevertheless, [market trustworthiness](https://www.regulations.gov/contentStreamer?documentId=OCC-2017-0014-0013&attachmentNumber=1&contentType=pdf) is critically important. Retail investors shouldn’t receive inferior prices to those available to institutional trading. More so, market ought to function effectively to uphold market integrity standards (fairness of access, free from manipulations other disruptions).

My submitted comments to the SEC can be downloaded [here](http://databoiler.com/index_htm_files/DataBoiler%20FeePilot610%20Comments.pdf). Following is an extraction of the concluding summary:

* Recalibration of the access fee cap is a must if order protection, best execution rules and other [NMS](https://www.sec.gov/rules/final/34-51808.pdf) provisions remain as-is. The cap is in essence the maximum toleration of exploitation. Bad behaviors will still be nourished and abusers will seek alternate ways to [circumvent the control](http://tabbforum.com/opinions/sec-steers-pilot-on-equity-trading-fees-and-rebates-amid-headwinds).
* Regulatory intervention through recalibration would be biased. Conflicts and disputes would be better resolved through the market. By having a new rule to ban [exchanges, alternative trading systems, and internalizers](http://www.law.columbia.edu/sites/default/files/microsites/capital-markets/rauterberg-_mahoney-_final_draft.pdf) from running data and technology businesses (mutually exclusive), then order protection and access rules might be able to roll back.
* Via better [delineation of rights](https://iea.org.uk/wp-content/uploads/2016/07/THE%20MYTH%20OF%20SOCIAL%20COST.pdf), this separation replaces the wickedness of a distorted economy of scope with efficiency gains (fewer fights, more cooperation, and better economy of scale). Healthy competition will be preserved, while licenses should be limited and be renewed over time to assure accountability.
* Realigned [privileges and obligations](https://www.ftfnews.com/trump-team-challenges-sifi-designation-for-nonbanks/16992) are necessary to fix “everybody owns, nobody owns” behaviors. Licenses will be auctioned where designated G-SIBs/SIFIs will enjoy rights to handle complex activities that match their market-making specialties and obligations. Leverages HFTs’ ability to response in a timely fashion to flash warnings and liquidity crunch.
* Enables trading platforms to shape the markets and [own up to the consequences](https://youtu.be/ga0R82g7Py8) of what they design. They will set boundaries for market-makers and give out ‘inspection stickers’. Yet, checking for effectiveness of controls, assuring market efficiency, and investor protection are responsibilities of supervisory authorities.
* The access fee pilot is a substantial cost to everyone in the market. If these separation and realignment suggestions can be adopted, [consolidated audit](https://www.sec.gov/comments/4-698/4698-4.pdf) trail can be revised for better market surveillance using stream analytics in real-time, and the economic resources devoted to in this access fee pilot can be saved and market integrity will be revitalized!

Instead of treating symptoms that may cause other unintended consequences with access fees recalibration, I encourage policy makers and all stakeholders to seriously consider my holistic suggestions.