The 2024 Market Structure Conference Debrief

Perspectives & Key Themes from Market Participants on Equities and Options

Published: November 2024

Recently we hosted our annual Market Structure Conference, with insights into top-of-mind topics for market participants in the options and equities markets. Inside this note, we recap just some of what was seen and heard, including:

- **Setting the Scene**: Based on conference survey results, S&P 500 to increase somewhat (55%); VIX in the low 20s (40%); equity ADV 11B to <12B shares (50%); & options ADV 45M to <50M contracts (61%).
- **Market Outlook** – Higher rates. Geopolitical tensions. Good news/bad news econ data. The election. Markets keep going, beyond the Magnificent 7. We analyze what's next for the economy, monetary policy, & markets.
- **Industry Outlook – Options**: 2024 = 5th record year for options volumes (46.4M contracts); driven by retail investors, demand is real/growing. With 18 exchanges, what is the value add of the 16th, 17th, 18th, x-teenth exchange? Short-dated options are not new, but the growing popularity among retail investors is. What could change once President Trump takes office?
- **Industry Outlook: Equities** – With 16 exchanges + 2 in registration, should there be a minimum market share requirement for a new exchange to earn protected quote status? Yes, other asset classes trade after hours, but should we let another region dictate potential changes to US market structure? SEC proposals/rules – glass half full = the finalized ones are better than the proposals; glass half empty = the proposals/rules could increase costs to investors and the cost of capital for issuers. What's next – a new SEC Chair next year; a potential pause and reassessment; and better engagement with the industry moving forward.

Contents

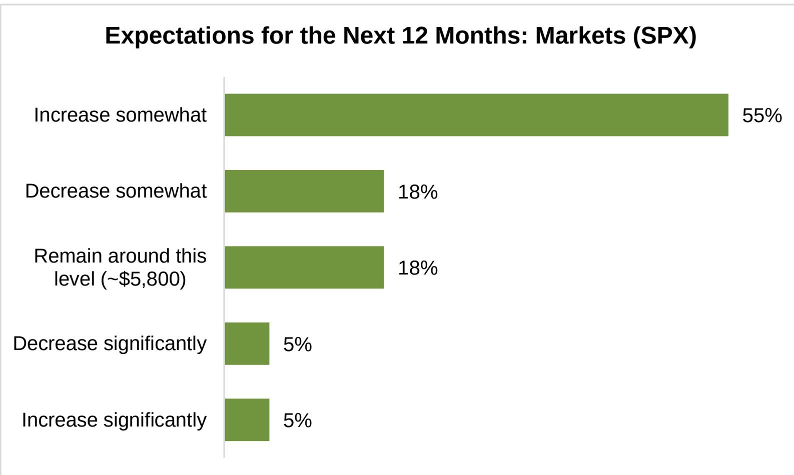
Setting the Scene

Survey Says: Market Metrics

To set the scene of the conference, we surveyed attendees and other SIFMA members to gauge respondents' estimates of where markets, volatility, and volumes could be heading over the next twelve months.

Market Performance

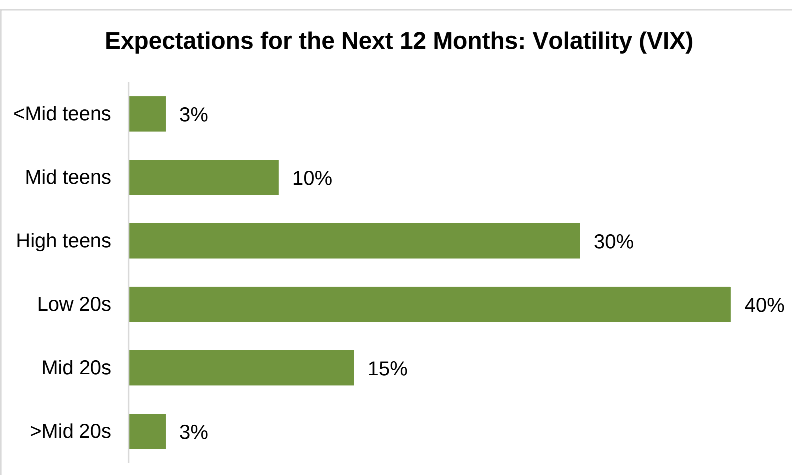
The majority of respondents expect the S&P 500 index price to "increase somewhat", at 55% of responses, followed by 18% each stating "remain about the same" and "decrease somewhat". (S&P 500 averaged 5,792.32 in October.)



Source: SIFMA Insights conference survey

Market Volatility

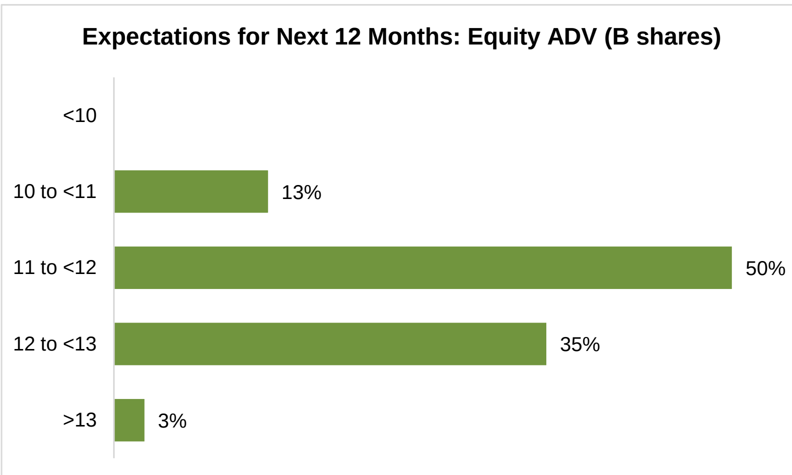
As to market volatility, the majority of respondents expect the VIX to be in the "low 20s" level, at 40% of responses, followed by 30% stating "high teens". (VIX averaged 19.96 in October.)



Source: SIFMA Insights conference survey

Equity Volumes (ADV)

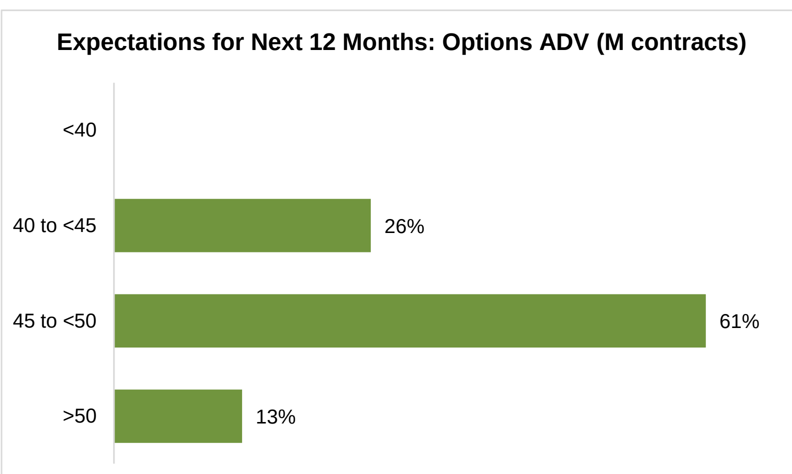
Looking at volumes in equity markets, the majority of respondents expect equity ADV to be in the “11 to <12” billion shares level, at 50% of responses, followed by 35% stating “12 to <13” billion shares. (Equity ADV 11.7 billion shares in October.)



Source: SIFMA Insights conference survey

Options Volumes (ADV)

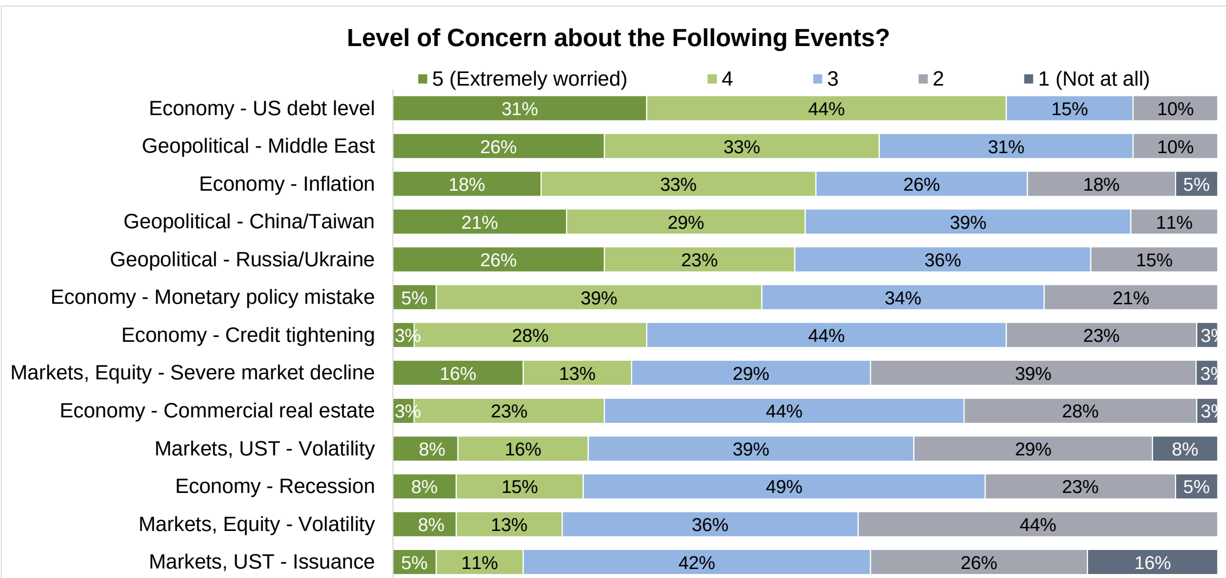
Looking at volumes in options markets, the majority of respondents expect options ADV to be in the “45 to <50” million contracts level, at 61% of responses, followed by 26% stating “40 to <45” million contracts. (Options ADV 47.2 million contracts in October.)

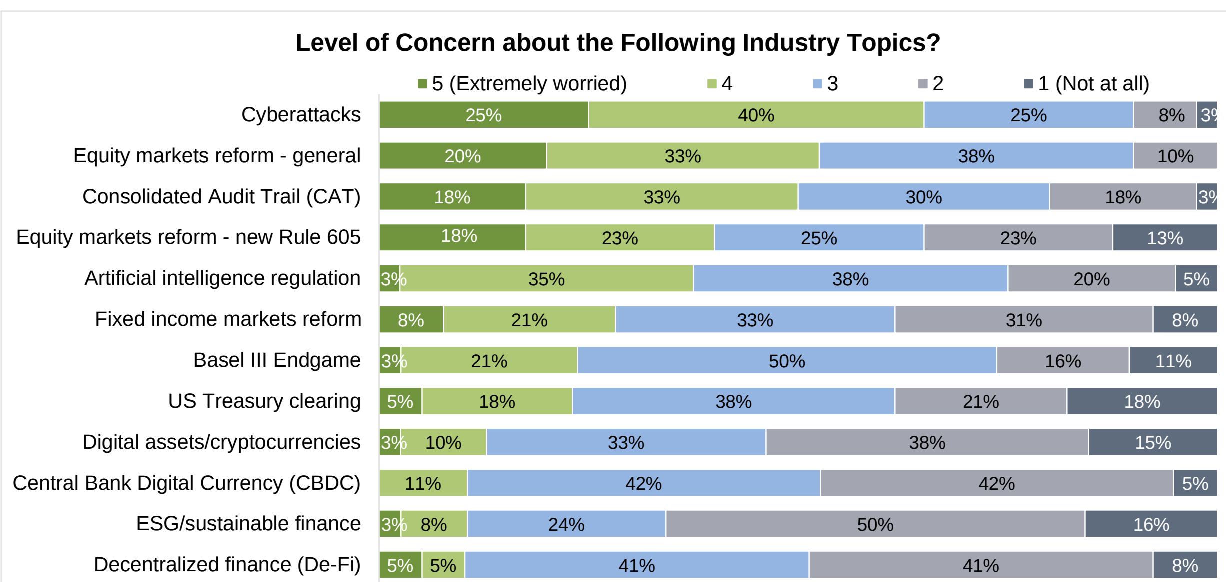


Source: SIFMA Insights conference survey

Survey Says: Macro & Market Topics

Our conference survey also sought to gauge respondents' concerns around current geopolitical, economic, and market events and trends. We ranked results by the aggregate responses categorized as #5 (extremely worried) and #4 (worried). For the general macroeconomic environment, it was all about the "economy – US debt level" and the "geopolitical – Middle East". As to industry topics, respondents were most concerned about "cyberattacks" and "equity markets reform – general".





Source: SIFMA Insights conference survey

Market Outlook

Metrics: The S&P 500 averaged 5,792.32 in October; +3.0% M/M, +35.8% Y/Y. YTD through October, the S&P 500 averaged 5,322.69; +29.9% Y/Y. Volatility (VIX) averaged 19.96 in October; +12.3% M/M, +5.4% Y/Y. YTD through October, the VIX averaged 15.53; -7.9% Y/Y.

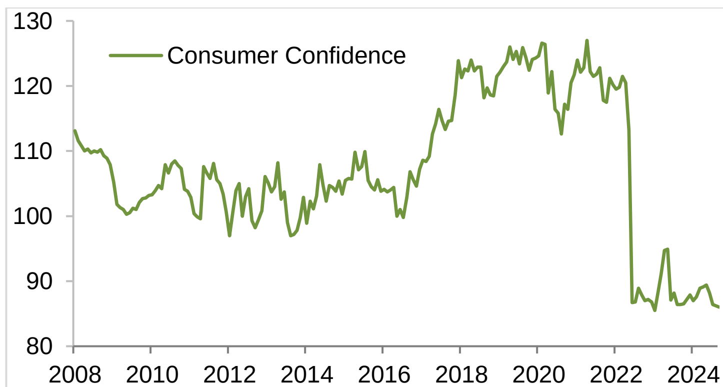
Higher rates. Geopolitical tensions. Good news/bad news economic data points. And now the election. Yet US markets keep going, and it is more than the Magnificent 7[1]. The day after election day, we assessed the state of markets and what a Trump administration could mean for the economy, monetary policy, and markets.[2]

Global Markets

We began our global tour in Asia. In China, market moves higher on stimulus measures are behind us, with investors looking for proof of sustainable growth. Challenges remain in achieving growth targets, coupled with low consumer confidence. The troubles here are more about demand than supply, with corporate profits stalling. Additionally, trade tensions – including the potential for additional tariffs under a Trump administration, or bipartisan reactions to China's threat to the US – and regulatory crackdowns have further dampened business sentiment in the region. Talking about better stimulus ahead is no longer enough, noted a speaker.

Hard to hit growth targets

Consumer confidence is on the floor

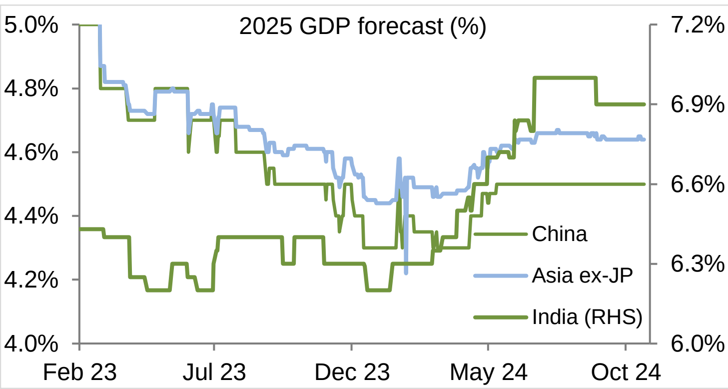


Source: State Street Global Markets

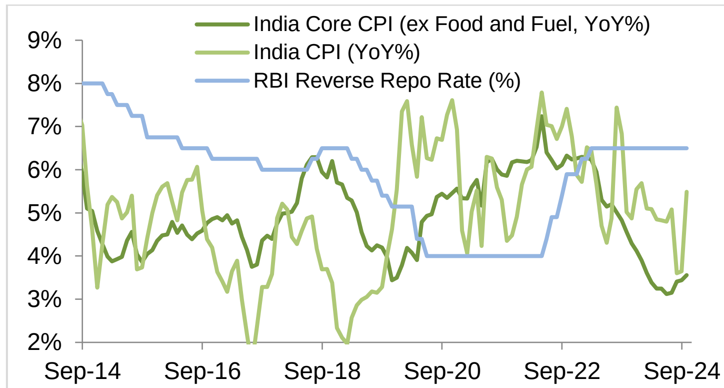
1 Apple (AAPL), Microsoft (MSFT), Alphabet (Google's parent, GOOGL), Amazon (AMZN), Nvidia (NVDA), Meta Platforms (META), and Tesla (TSLA).
2 Main panel: Dan Gerard, Senior Multi-Asset Strategist, State Street Global Markets; Katie Kolchin, CFA, Managing Director, Head of Research, SIFMA (moderator). This commentary represents SIFMA Insights' interpretation of the speaker's presentation, as well as election commentary from other panels throughout the conference and data analyzed by SIFMA Insights.

As to another key emerging market in the region, India represents the better fundamental story, being less tied to international trade and potentially increasing tariffs. Resilient growth continues, influenced by media coverage and policy decisions. India's economic reforms and digitalization efforts are the driving factors behind its robust growth, despite global uncertainties.

Resilient growth in India



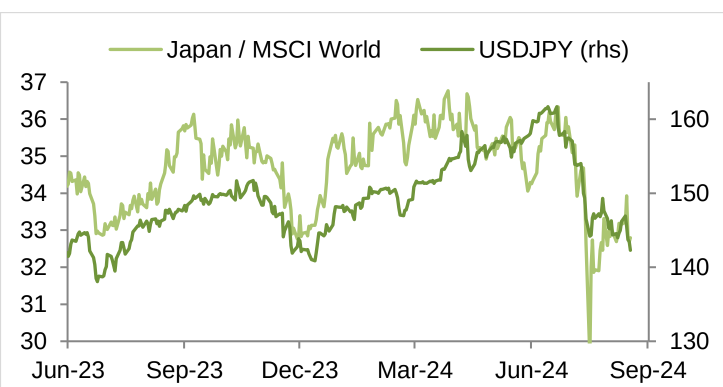
Likely due to policy



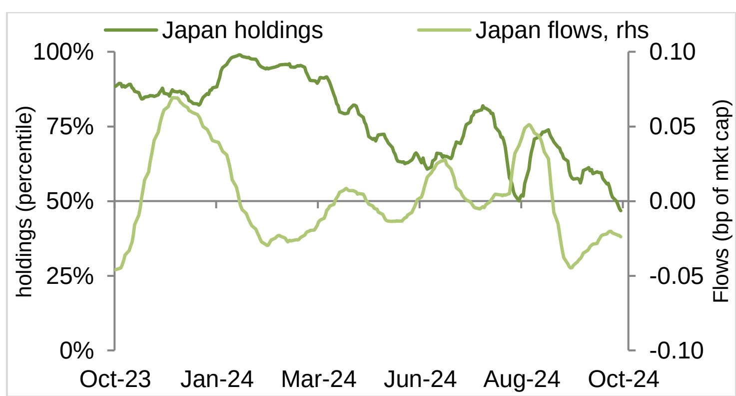
Source: State Street Global Markets

We leave Asia with a stop in Japan. Japanese stocks have been supported by a weak Yen, but this may not be a sustainable trend long-term given potential shifts in monetary policy. About two weeks ago from the writing of this report, Japan's Liberal Democratic Party – governing almost continuously since 1955 – lost its parliamentary majority in the lower house for the first time in fifteen years. Japanese voters voiced their anger and distrust over rising living costs, inflation, and a political funding scandal. As such, the world's fourth largest economy fell into political uncertainty. This is more likely near term uncertainty noted a speaker.

Japanese stocks supported by the weak yen …can't last forever



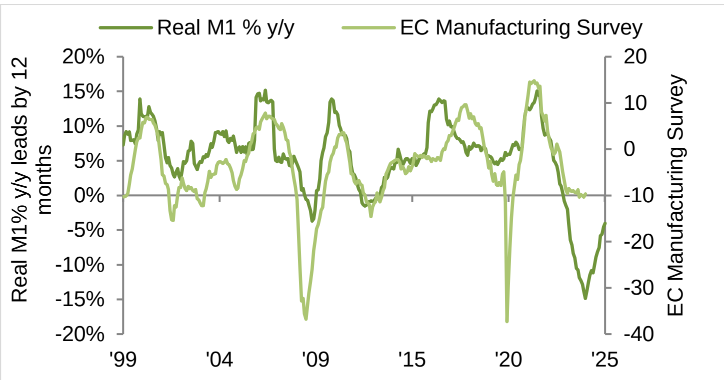
With political uncertainty, institutional investors no longer buying the dip



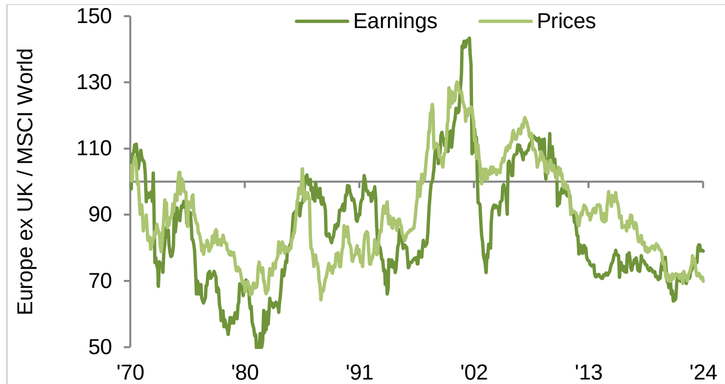
Source: State Street Global Markets

Our global tour continues in Europe. The economy is experiencing a slowdown, partly attributed to European Central Bank policies. There are challenges in major European economies, including Germany's industrial downturn and France's political instability. There are significant concerns about earnings, and institutional investors are showing waning interest in European stocks, noted a speaker.

European economy is slowing, thanks ECB



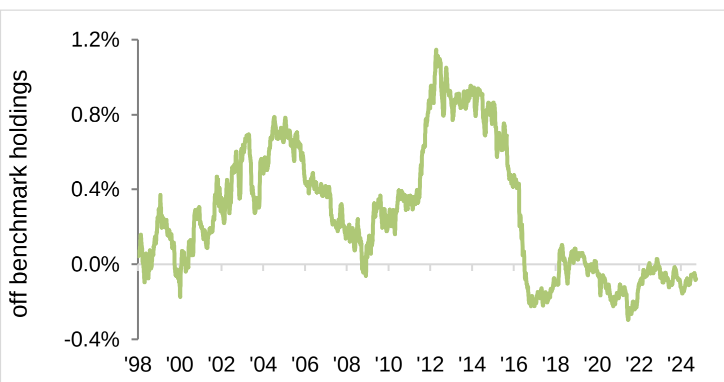
Trouble with earnings



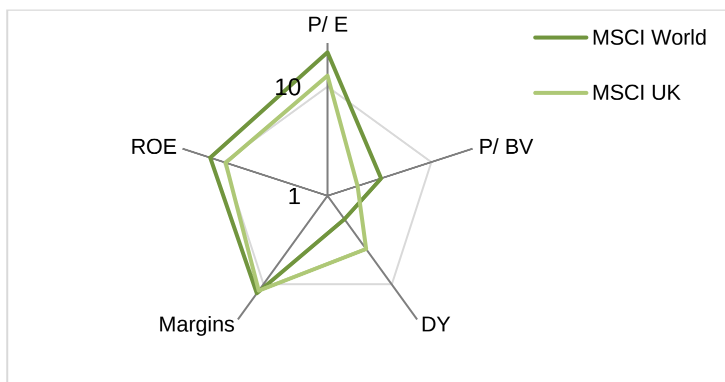
Source: State Street Global Markets

As to the UK, it is facing fiscal challenges, with Brexit-related uncertainties still looming over its economic prospects. A speaker noted that there are reassuring aspects – favorable margins and dividend yields – attracting selective UK equity investments (though this story could be fading).

Institutional investors underweight since 2016



UK does offer margins and dividend yield

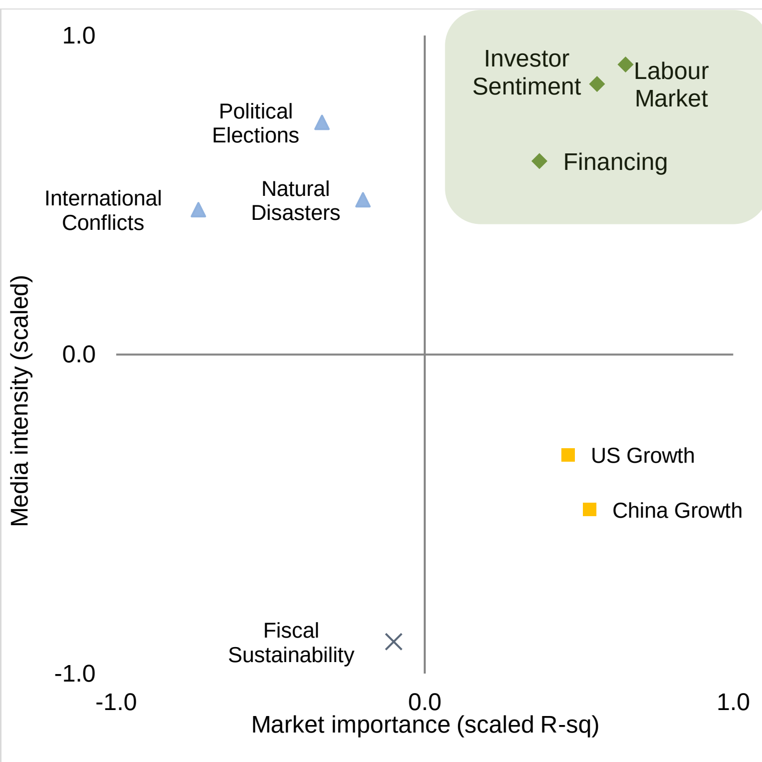


Source: State Street Global Markets

US Macroeconomic Environment

Before we land back in the US, we assess the macroeconomic environment. After all, US markets are heavily influenced by the business cycle and the Federal Reserve's policies. The consumer is still spending – and the consumer is the biggest driver of US GDP – and the economy has not slowed. There are no signs of a recession, noted a speaker. The Fed's focus had shifted to labor markets a few months ago, communicating concerns about weakness here. However, after peaking in July, labor market data has trended better for a few months. As such, the market adjusted rate cut expectations accordingly. Looking at CME FedWatch[3], in mid July, markets placed around a 50% probability of a 50 bps cut by the November Federal Open Market Committee (FOMC) meeting and a 44% probability of a 25 bps cut. A week ahead of this meeting, markets had around a 100% probability for a 25 bps cut. This is exactly what we got at the November meeting, a 25 bps cut.

The back and forth nature of economic data pints and the improving labor market factors have put the Fed in a tough spot – continue the path to a more normal rate or react to the existing data – and this continues to impact markets.

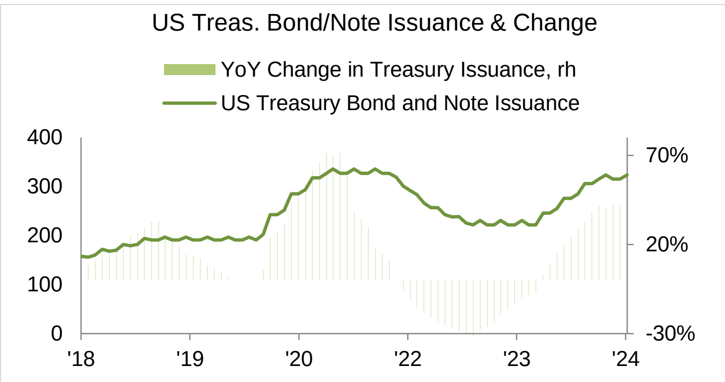


Source: State Street Global Markets

[3] CME FedWatch tracks the probabilities of changes to the Fed Funds rate, as implied by 30-Day Fed Funds futures prices.

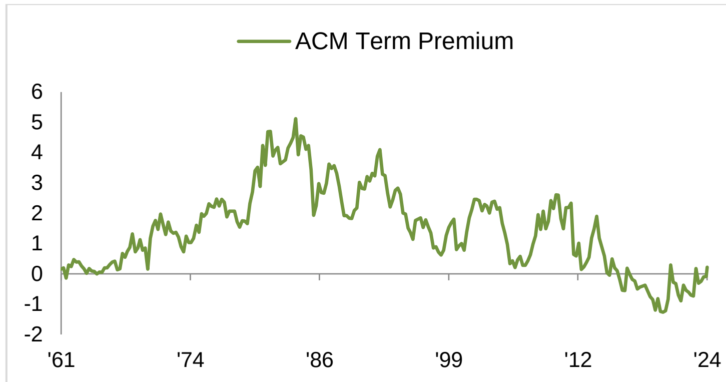
Additionally, Treasury issuance and fiscal spending remain a concern. As such, there is a higher term premium built into the ten year Treasury. According to a speaker, the level of the ten year next year remains an unknown, dependent upon the path of both fiscal and monetary policy.

Fiscal attitude should worry us, especially as the Fed is no longer accumulating debt



Source: State Street Global Markets

Pick your analogous period…
Term Premium should continue to rise



US Markets

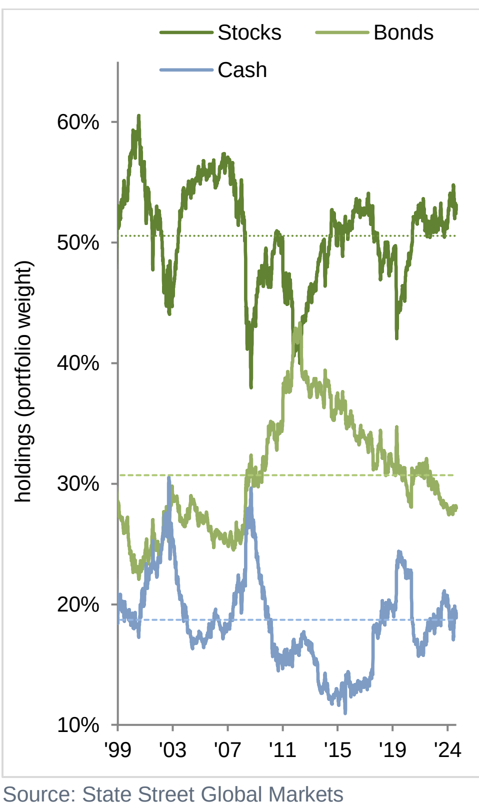
We have now landed back home in the US, and markets have weathered a lot. Higher for longer interest rates. The summer carry trade event. Economic data goes back and forth as a positive or negative for the path and magnitude of rate cuts. Heightened geopolitical tensions. Yet, markets keep climbing. Election day has past…what's next for markets?

First, there has been a discussion over recent years about concentration in the S&P 500 (SPX), with the top ten stocks representing 40.2% of the total index, the Magnificent 7 at 32.5%, and the technology sector at 31.1%. Market participants have expressed concerns that a handful of stocks have represented all of the market performance. To show this, the SPX is frequently compared to the equal weighted version of the index, the SPW. On this basis, the SPX has outperformed the SPW, +21.0% YTD versus +11.7%.

However, a speaker noted that the performance of the S&P 500 is actually driven by more than just the Magnificent 7. The ex-technology, ex-Magnificent 7 stocks on a market cap weighted basis are performing well. This is the apples to apples comparison, i.e. all market cap weighted views, a more appropriate comparison than market cap versus equal weighted. Large cap quality in general and large cap technology stocks are all performing well. Institutional investors remain positive on stocks, particularly technology stocks, and very little else noted a speaker.

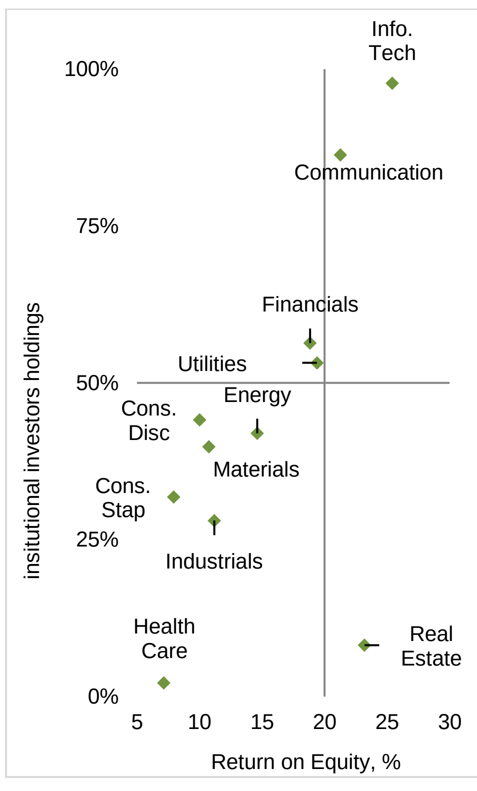
That said, multiples are under pressure – or at least not going up – and earnings pressure remains. After all, noted a speaker, it is hard to get double digit earnings growth when you have contracting nominal growth in the economy.

High allocation to equities



Source: State Street Global Markets

…Highly profitable US Tech stocks



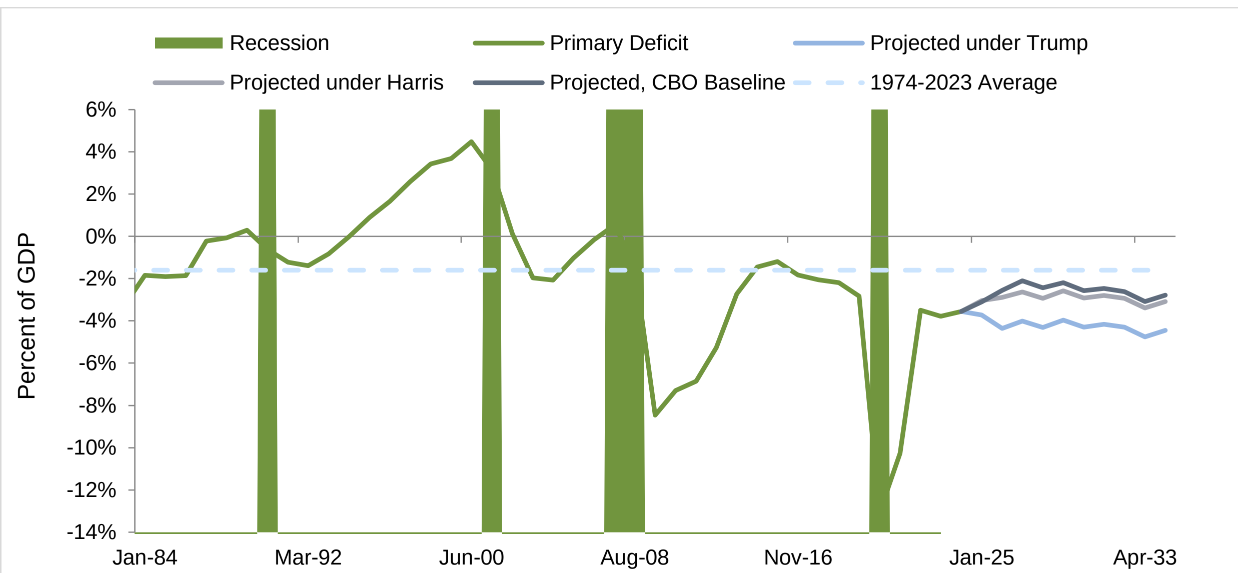
Election Impact

There has been a lot of focus on what the outcome of the election means for the path of markets. We now have our result: President Donald Trump, Republican; a Republican Senate; and a Republican House of Representatives. Republicans had a clean sweep, winning the presidency as well as majorities in the Senate and House. However, the House majority remains quite slim, and the Senate majority will likely be constrained by the retention of the filibuster rule. In other words, it might not be as easy to pass through agenda items as the term sweep implies.

Additionally, based on what we heard on the campaign trail from both candidates – and extrapolating this to overall party ideologies – no one is focused on constraining fiscal spending. Many market participants had already considered the path of Treasury issuance to cover spending unsustainable, and neither party appears to show any regard for the potential negative outcomes of extreme borrowing.

Paraphrasing a speaker, as such, the election result this time around does not matter. Without serious efforts to control spending, markets will continue to have to work through inflation uncertainty, a rising term premium in the ten year Treasury, and a steepening yield curve countering monetary policy goals.

Fiscal issues won't get better…whoever wins



Source: State Street Global Markets

Industry Outlook: Options

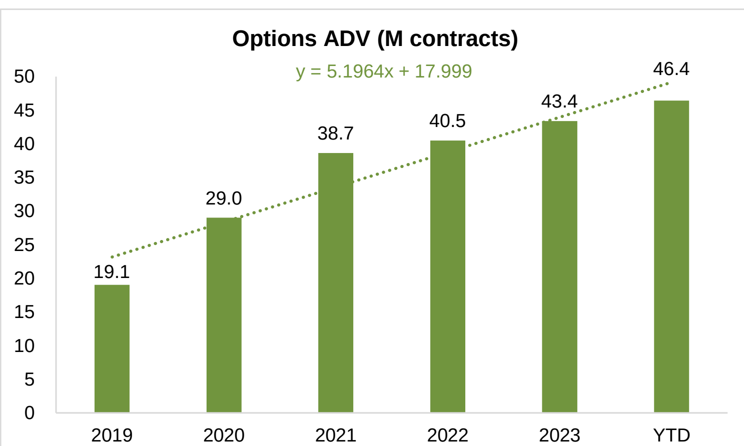
Volumes Growth

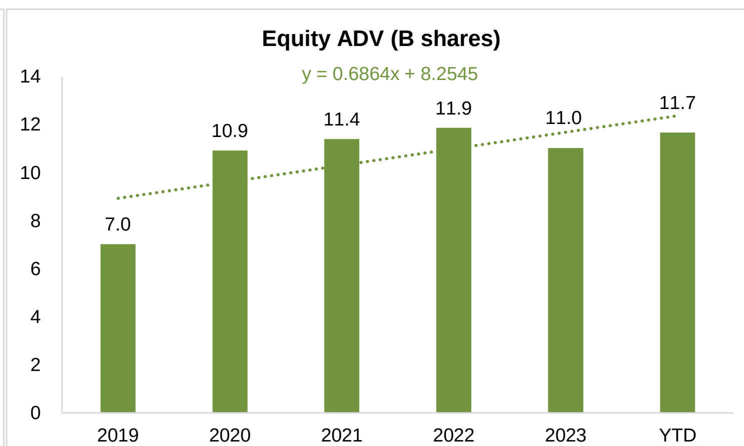
Metrics: Options volumes (ADV) averaged 47.2 million contracts in October; +0.9% M/M, +7.3% Y/Y. YTD through October, options ADV averaged 46.4 million contracts; +7.0% Y/Y.

2024 is already the fifth record year for options volumes. Driven by retail investors, options demand is real and continues to grow, noted a panelist. Total options ADV is up 143.8% since pre COVID, from 19.1 million contracts to 46.4 million contracts. At the peak of COVID, 2020, volumes grew 52.5% Y/Y, followed by +33.1% Y/Y in 2021. Those growth rates have come down, ranging from 4.8% to 7.1% Y/Y for the years 2022 to 2024 (through October). While the growth rates have stabilized, the volume level remains significantly elevated to historical levels.

Options volumes growth has outpaced that of equities. Equity ADV grew 55.4% Y/Y in 2020, but then leveled off and even dipped in 2023. Equity ADV averaged 4.3% per annum in 2021 and 2022, declined 7.1% in 2023, and has grown 5.8% Y/Y in 2024 (through October). Like options, the equity volume level remains significantly elevated to historical levels, from 7.0 billion shares to 11.7 billion shares YTD.

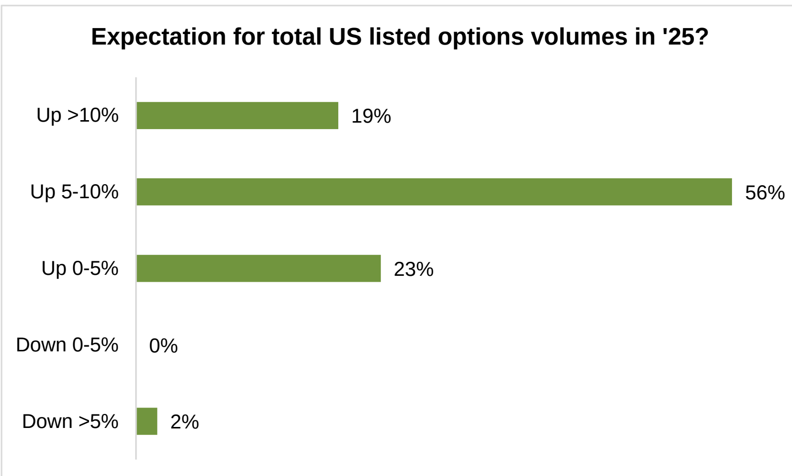
However, the options total 2019 to 2024 growth of 143.8% is almost 2.5x that of growth in equity volumes for the same time period, +66.1%. Looking at the slopes of the lines in the charts below, one can see the magnitude of difference in growth patterns between the two asset classes. The slope for options ADV is 7.6x that of equity ADV.





Source: Cboe Global Markets, SIFMA estimates

As such, noted a panelist, growth is not expected to be 10%-15% each year in perpetuity, more likely between 5%-10% next year but closer to 5%. We polled the audience on their expectations for total options volumes in 2025. 56% of respondents agreed with panelists, expecting options volumes to grow 5-10%. This was followed by 23% responding growth of 0-5%.



Source: Audience polling

Market Structure

Number of exchanges: Currently, the US has eighteen options exchanges (please see Appendix for a list), with plans for 1 more exchange to launch in the future[4]. While market participants encourage innovation and competition, the growing number of exchanges also brings concerns. First and foremost, the growth in exchanges can fragment liquidity. Or put differently, the expansion of exchanges increases burdens on liquidity providers who must cobble together this disconnected system to get the best outcome for orders. Additionally, fragmentation increases costs – costs which could be pushed down to investors – as market makers must build technology solutions to connect to and receive data from all exchanges to meet best execution regulatory requirements.

Panelists wonder what is the value add of the sixteenth, seventeenth, eighteenth, x-teenth exchange? Is there a different technology stack which offers something unique like a new algorithm? Are the choices provided on the new venues measurably different for the customer experience? If not, the tradeoff with fragmenting liquidity is not worth it. If the customer is better off and liquidity is not compromised, then additional exchanges are acceptable.

A panelist even wondered if we would see consolidation of exchanges. This would free up market participants' time spent on fee models to focus on technological developments that improve the customer experience. This is what drives confidence in markets, noted a panelist.

[4] IEX has publicly announced they will start a new options exchange.

After hours trading[5]: The concept of twenty-four hour trading is not new. Fixed income and futures markets already trade this way. Some investors view the world as getting smaller, and as such, they want exposure to US markets during their home country's trading day. A panelist noted that extended trading hours in options on a larger scale is inevitable. While there are complexities and many different moving pieces for the industry to work through, it is achievable.

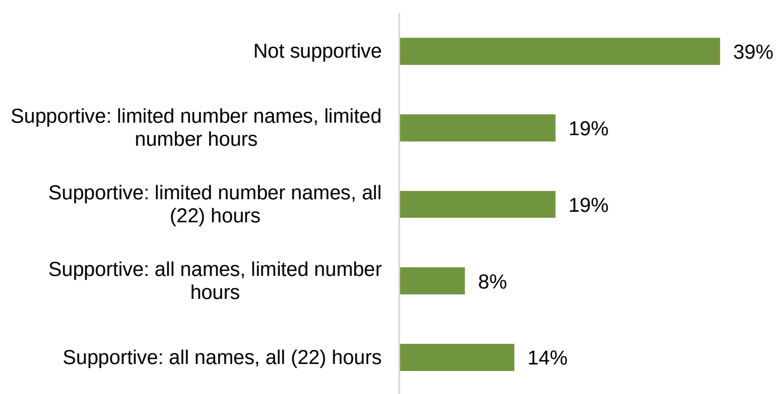
Education will be key to extending trading hours. When is the SPX not the SPX? When you trade an SPX option contract in after-hours trading. There are costs to extended trading hours. The key difference is the lighter available liquidity when the US exchanges are closed. There are not the same hedges available as during day time. In general, it is not the same product as during the day, and these differences will need to be explained to investors.

Additionally, the demand for trading overnight differs from the day. Panelists do not see demand taking volumes from day time slots and extending it. Instead, it is a different investor set – and much lower volumes concentrated in a few products – predominantly from investors in the Asia Pacific region looking to access US markets during their work hours. Extending hours to accommodate a niche group of investors creates additional costs for market participants.

Further, panelists are concerned that the market structure is not yet there for large scale after hours trading. There are no order execution rules. There is no best execution requirement. This leaves overall market questions as to how extended trading hours could impact the retail investor experience.

We polled the audience on their level of support for expansion of trading hours in single name equity options. The results were not decisive. 39% of respondents were not supportive of any expansion to single name equity options. However, 38% were supportive of extended trading hours for a limited number of names. Even that was not a majority results – responses were split equally between allowing a limited number of extended hours versus extending trading for all 22 hours, 19% each.

Extend trading hours in single name equity options?



Source: Audience polling

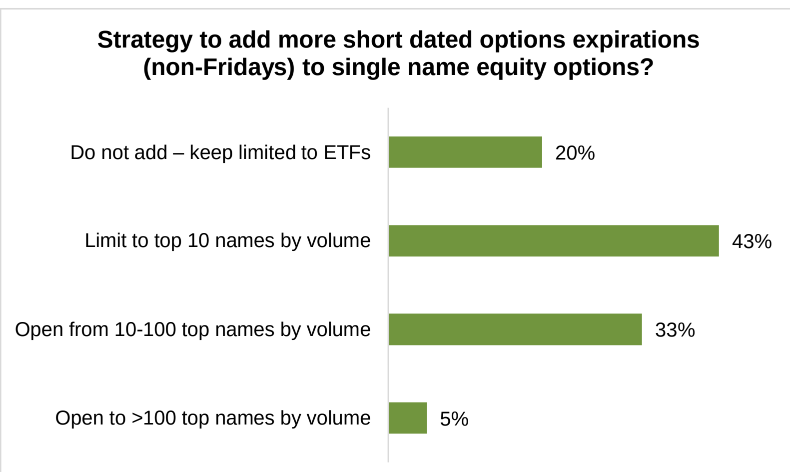
[5] Trading after exchanges close at 4:00 PM EST and before they reopen at 9:30 AM EST.

Short-dated options: Short-dated options strategies – panelists stressed that this is a strategy not a product – are not new. What is new is the growing popularity among retail investors. Shorter duration products show consistently increased Y/Y growth as a percent of total options. In 2024, they represented 21% of volumes, up from 19% in 2023 and 9% in 2021. Additionally, it was noted by a panelist that zero days to expiration options (0DTE[6]) are driving around 50% of both SPX and SPY volumes.

A panelist noted that these volumes are additive, not cannibalizing the maturity curve. This growth is viewed by panelists as "healthy and balanced". That said, the Financial Industry Regulatory Authority (FINRA) wants to ensure that investors understand the risks and that firms are providing appropriate disclosures.

When asked if five years from now the industry will have short-dated options on single name equities, for example AAPL expiring on Wednesday, the answer was yes. However, the answer was no to changing specifications, including times or contract size. As to what changes will be needed, panelists indicated that market makers will have to monitor if this adds risk to the system, and to retail investors in particular. It has been suggested that the starting point would be to begin with a small group of names. The answer to growing this strategy then lies in the risk versus reward balance. Are we putting more risk on the table by adding options on single day single stocks?

We polled the audience on their opinion on the best path forward for adding additional short dated options expirations (non-Fridays) to single name equities. 43% of respondents believe the industry should start by limiting this product to the top ten names traded, as determined by volume. This was followed by 33% responding opening up to the top ten to one hundred names by volume.



Source: Audience polling

[6] A 0DTE option is an options contract set to expire at the end of the current trading day; we note that they are listed two weeks prior to expiration.

Regulatory Update

Fresh off the election, top of mind to conference attendees was what could change once newly elected President Trump takes office. In general, it is expected that the core regulators at the staff level remain the same, with some "spikes on the edges" as chairs change. It is expected that, going forward, regulators will be open to listening to and working with the industry.

As to the current slate of equity market structure rules/proposals, panelists remarked that there are key differences between equity and options markets[7] which should be considered in the rulemaking process. Equities are order driven, while options are quote driven. In options, customer trades mainly execute against market makers, who vigorously compete for orders. Further, all trades take place on exchange, and many retail orders are exposed to price improvement auction mechanisms.

This market structure has led to improved spreads and lower costs, all while resiliency has proven strong. Panelists do not see the need for regulatory changes to options market structure. As one panelist put it, "It can't get any better for investors."

That said, panelists noted that regulatory changes are needed to be able to get new products to market faster. This includes looking at rules which constrain liquidity. In other words, the industry and regulators need collaboration to maintain the currently positive investor experience.

Retail Investor Participation

There has been a customer evolution since 2018. Options investors are younger, in the Millennial or Gen Z groupings. Also, they are not just purely options investors – they invest in other assets. eToro shared some statistics from their platform on options investors: 65% are also buy/hold stock investors; 41% are also crypto investors.

The traditional path had been that these investors start trading stocks. They then add protection to their stock portfolio or trade stocks around earnings or events. They move onto options trading, followed by trading complex options strategies and then crypto. Now, panelists noted, they are starting with options or going to options from crypto. There is a path to getting investors to options, and the industry strategy is through education, helping investors understand how to use options and other asset classes.

What is next for retail? As 58% of Americans own stocks directly or indirectly – the Fed's Survey of Consumer Finances does not track ownership of options – there is more room to grow for all asset classes. For example, these young investors want a way to express their opinions financially, opening up room for product expansion such as trading event contracts. Thay also want to trade "around the clock for everything", opening up the conversation around after hours trading.

[7] Please see SIFMA Insights The ABCs of Equity Market Structure for differences between markets.

Industry Outlook: Equities

Metrics: Equity volumes (ADV) averaged 11.7 billion shares in October; -1.6% M/M, +9.6% Y/Y. YTD through October, equity ADV averaged 11.7 billion shares; +5.8% Y/Y.

Market Structure

Number of exchanges: Currently, we have sixteen equity exchanges (please see Appendix for a list), with plans for four more exchanges to launch in the future[8]. Despite this continued growth, a speaker noted that there are barriers to entry to launching a new exchange: the process is complex, time consuming and expensive.

The system is what it is because regulators and the industry encouraged competition. However, as noted by a panelist, currently half of the trading venues have minimal market shares. Yet, brokers have to connect to every venue to fulfill regulatory requirements, including best execution requirements. A suggested solution has been to grant exchanges a protected quote once they meet a minimum market share threshold. This could prevent brokers from connecting to all exchanges. On the other side of that is the chicken and egg problem. If quotes are not protected, the exchange might not have the value proposition to grow its market share.

Hand in hand with the exchange count conversation is that around the level of off exchange trading in equities. As of 3Q24, this level was 47.3% of total volumes. What is the perfect level of off exchange trading? This is an age old question, still lacking an answer. Panelists do not view the mix of on and off exchange trading as a problem. Market participants have choice, and they have data to make informed choices. “Choice is good”, based on what the trader/investor is trying to accomplish. Panelists do not see liquidity problems either off or on exchange. Markets are interconnected, and anyone can access any market.

After hours trading: Panelists noted that it is good to discuss after hours trading, as other asset classes trade this way. Currently in 2024, after hours trading average around 10.5% of total equity volumes (we note that this number includes closing cross mechanisms on and off the exchanges, which elevates the volume). Where is the demand coming from?[9] It is estimated that the majority of trading comes from AsiaPac. Blue Ocean shared a statistic with us, noting that around 85% of their after hours trading volumes come from this region. Investors there want to access US markets, and they want to do so during their business hours, i.e. US overnight hours. That leaves the question as to whether US firms should let another region dictate potential changes to US market structure, or should US firms drive the discussion around potential market structure changes.

And there is a lot to discuss. While momentum continues to grow, market structure questions remain. As a panelist noted, simply adding stock symbols is “easy”. However, a stock trades differently during the day and at night. There need to be sufficient liquidity providers available, otherwise investors can access the stock, but it might be trading at “super wide” spreads (more expensive). Further, a panelist wondered should people be reacting to news overnight without knowing where the market is? Firms need to be able to explain to investors why a stock is moving up and

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[8] Green Impact Exchange and 24x have applications pending with the SEC (the 24X decision is due November 29). Dream Exchange has announced plans to open an exchange but has not yet filed (it may need legislation to launch a national securities exchange under the Securities Exchange Act of 1934 before they can do so). Texas Stock Exchange has also announced plans to open an exchange.
[9] Trading after exchanges close at 4:00 PM EST and before they reopen at 9:30 AM EST.

down, dissimilar to what is seen during the daytime. To scale after hours trading, the experience needs to be synched with daytime hours.

A roadmap is needed, and that includes regulatory guidance. There are operational issues to consider. The Securities Information Processor (SIP, the consolidated tape) is not open in after hours. There is no trade through rule (order protection), no limit up-limit down rule (LULD, a market volatility control measure), and no national best bid and offer (NBBO, an aggregation of the best bid and offer prices across all US exchanges). Essentially, there are no guardrails.

The Securities and Exchange Commission (SEC) is expected to rule on the 24X exchange application to provide round the clock trading on November 29. Panelists noted that the SEC needs to recognize that by approving this application they are setting a precedent and, as such, need to be thoughtful.

Regulatory Update

(Please see the Appendix for details on the SEC's rules/proposals.)

Positives of SEC rules/proposals: We will begin with the glass half full. In general, the industry believes it is good to discuss market structure and advocates thoughtful reform where issues are identified. Panelists believe the SEC's intent was good – make markets better – but never agreed that there was a problem. The industry spent years talking about the unintended consequences of Regulation National Market System (Reg NMS), and the recent rules/proposals were actually based on industry discussions. For example, differentiating tick sizes across low and high priced stocks is viewed positively. Another example is that Rule 605 will provide transparency on execution quality, a positive for retail investors.

Panelists also noted that the final rules were better for markets and investors than originally proposed. For example, it was estimated that the original trading increment would have hurt price improvement for retail investors. That said, changes must protect the quality of the market, the depth of liquidity, and the integrity of the NBBO.

Negatives of SEC rules/proposals: Now the glass is half empty (or almost completely empty). In general, market participants are frustrated with the overreach of the proposals/rules. SEC Chair Gensler once said at an industry conference, "I'm responsible for 333 million Americans". If that is true, then why throw out existing regulations – for markets that serve investors well and are the envy of the globe – without performing a data review and having a discussion with the industry? Should something go wrong, it is "a black eye for everyone" and will harm investors instead of making markets better for them.

Taking a more detailed look, panelists spoke about specific issues with the two finalized rules. For Rule 605, while transparency is welcomed, concerns exist that there is the implication that the form can be used to directly compare two firms. This would be misleading, as firm business models and customer bases are not apples to apples. On changes to tick sizes, panelists believe too many ticks were included in the final rule. Panelists believe the rule should have started slower, with around 200, and then assess the results to determine if more or less ticks should be included moving forward. Additionally, the rule reduced spread costs for some stocks but kept access fees the same, and the 10 mils[10] access fee cap is "arbitrary". This was the same logic the SEC used years ago for a pilot,

[10] 10 mils is equal to $0.001 per share.

which was successfully litigated against – why no lessons learned asked a panelist. In general, a panelist noted that retail will be disadvantaged with this set up of proposals/rules. For example, fill rates (percent of executed orders) will go down for retail orders.

A preferred – and logical – pathway would have been to: (1) define what the problem is that you are trying to solve for; (2) speak with industry experts; (3) gather and review data, giving the industry ample time to review findings; and (4) develop the final rule with a sufficient implementation timeline and assessment process. Instead, this group of rules/proposals have fundamentally changed the economics of trading, leaving market participants to figure out how to trade in this new environment. For example, there could be negative impacts on liquidity at the NBBO, which is what all stocks trade off (and off exchange trading is derivatively priced off this).

These proposals/rules could increase costs to investors and the cost of capital for issuers. Panelists noted that regulators did not fully understand the problems they were bringing to the market.

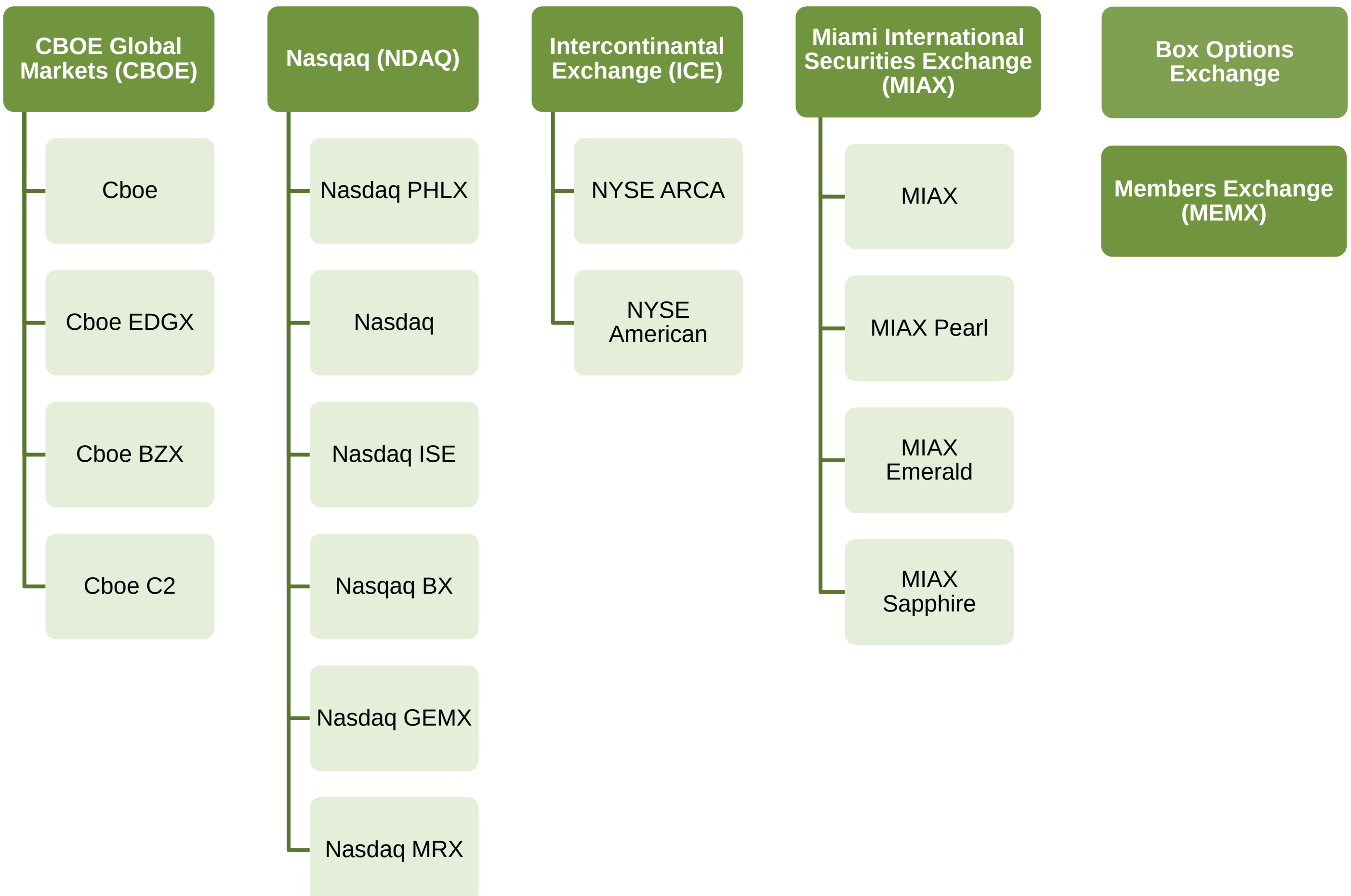
Next steps: Continuing on with the what could change under a Trump administration theme, unfortunately not much. To address the elephant in the room, President Trump cannot fire Chair Gensler from the SEC. He can remove him as the Chair, which could motivate him to resign (or it could have him stick around just because he can). Regardless, there will be a new SEC Chair next year.

For the two finalized rules, they were both approved by a 5-0 vote on a bipartisan basis. Most panelists do not see the SEC backtracking on these. That said, not everyone has given up hope. Since the final rules/proposals overrode old rules (under Reg NMS) – and with one under litigation – a new commission could stay the rules.

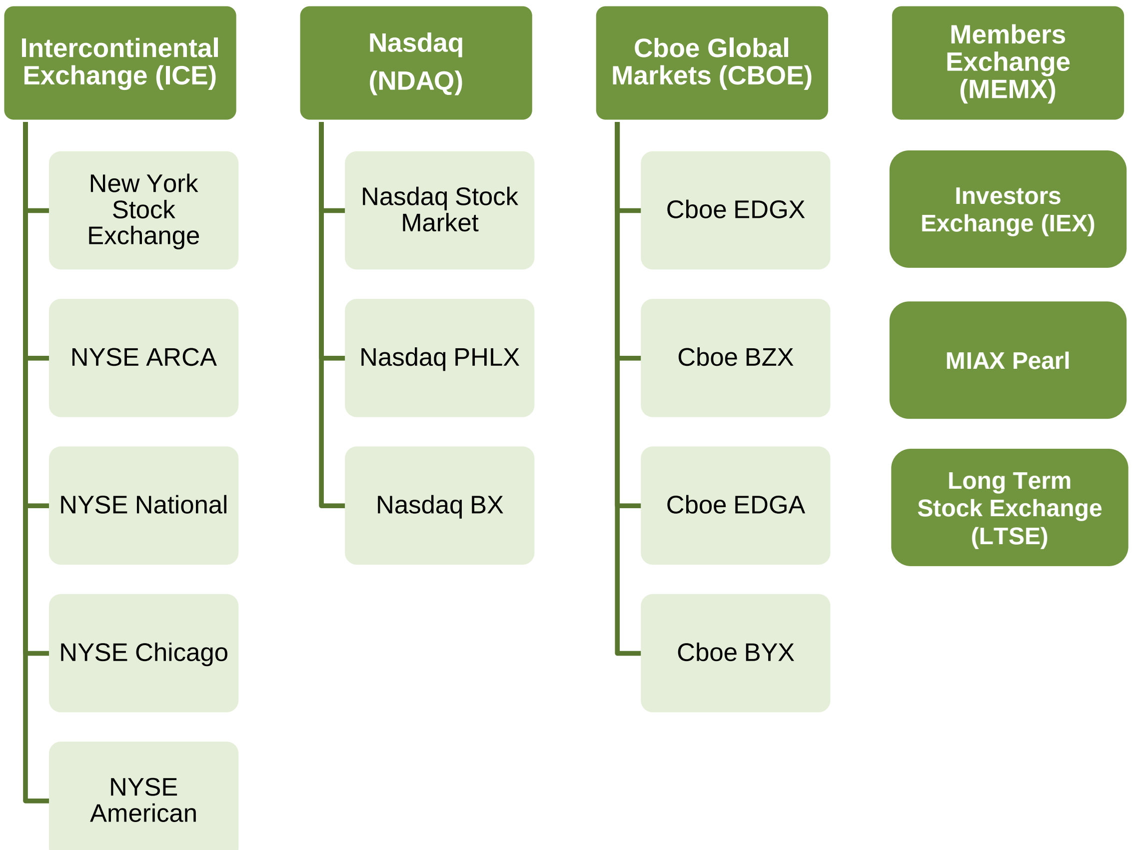
With the anticipated SEC changes, panelists hope the new commission will pause and reassess. This is true for the remaining proposals, but also reviewing what was done, is it working, and should there be an unwind of things done. There are too many moving pieces in the rules/proposals as they stand today. The SEC should think through first, second, and third order consequences, noted a panelist. The industry preference has not changed, the SEC should have started with updating Rule 605 and then used that enhanced data to develop and analyze the other rules/proposals. This would have established a baseline for measurement before putting other changes in place.

Looking forward, the hope is that the new SEC will focus on one thing – there is too much changing at once right now – and get that done correctly, maintaining market integrity. Panelists also noted that they are looking for better SEC engagement with the industry moving forward.

Appendix: Exchange Landscape – Options



Appendix: Exchange Landscape – Equities



Appendix: Equity Market Structure

On December 14, 2022, the SEC proposed four equity market structure rulemakings. Then, on October 18, 2023, the SEC proposed a fifth rule. These rules included: https://www.sec.gov/newsroom/market-structure-proposals-december-2022

1. (Amendments to) Exchange Act **Rule 605** – **adopted on March 6, 2024** – enhancing broker disclosure of order execution information. The new rule expands the scope of entities required to report to include: broker-dealers who introduce or carry 100,000 or more customer accounts; single-dealer platforms; and entities that would operate qualified auctions under the proposed Order Competition Rule. It also revises the scope and content of the information required to be included in the monthly reports, including: broadening the definition of covered order; modifying existing order size categories, basing them on round lots and including other size groups for fractional shares, odd-lots, and larger-sized orders; requiring new statistical measures of execution quality, including a size improvement benchmark calculating execution greater than the displayed size at the quote. The rule further revised report content and requires a summary report to be published. https://www.sec.gov/newsroom/press-releases/2024-32

2. (Amendments to) Exchange Act **Rules 610 and 612** – **adopted on September 18, 2024** – amending minimum pricing increments (tick sizes) and exchange access fee caps and enhancing the transparency of better-priced orders. This proposed rule would eliminate the current one-size-fits-all tick approach for NMS stocks priced at $1.00 or more and establish variable minimum pricing increments according to certain criteria, which would apply to the quoting of NMS stocks on any national securities exchange or alternative trading system as well as over-the-counter. The proposed rule also recalibrates access fee caps that limit what a trading center may charge for the execution of orders. The proposal would also accelerate the modified round lot definition and inclusion of odd-lot information into consolidated market data. This will be the first time the SIP introduces an odd lot BBO, which could lead to investor confusion since it will not be protected. https://www.sec.gov/newsroom/press-releases/2024-137

3. (New) **Regulation Best Execution**, establishing a best execution standard to which broker-dealers must achieve the most favorable price for customers under prevailing market conditions. It would also require policies and procedures for certain conflicted transactions with retail customers. To some extent, the proposal mirrored existing rules from FINRA for its broker-dealer members and the Municipal Securities Rulemaking Board (MSRB) for municipal securities dealers. However, it includes a conflicted transactions section which specifically targets payment for order flow (conflicted also includes principal trading and routing customer orders to affiliates), subjecting broker-dealers transacting with retail customers to additional best ex obligations. Further, the proposal requires exchanges disclose the fee for transactions at the time of execution, in contrast to proposal #5 below.

4. (New) **Order Competition Rule**, requiring certain retail orders to be sent to auctions or midpoint ATSs before being internalized. This proposal would require segmented orders of natural persons in Reg NMS stocks to be exposed to competition in fair and open auctions before they could be executed internally by any trading center that restricts order-by-order competition, with certain exemptions. The duration of auctions would be between 100 and 300 milliseconds (an eternity in trading terms).

5. (New) Exchange Act **Rule 6b-1**, addressing volume based exchange transaction pricing for NMS stocks. This proposal would prohibit national securities exchanges from offering volume-based transaction pricing in connection with the execution of agency or riskless principal-related orders in NMS stocks.

In addition to these five proposals/rules, participants in equity markets are dealing with a slew of other SEC proposals and issues, including but not limited to: Regulation Systems Compliance and Integrity (Reg SCI); Consolidated Audit Trail (CAT) funding; amendments to Reg ATS/Definition of an Exchange; short interest reporting; and Predictive Data Analytics (PDA).

Appendix: SIFMA Insights Research Reports

SIFMA Insights: www.sifma.org/insights

- Ad hoc reports on timely market themes
- Annual Market Structure Compendiums: Equity and Fixed Income
- COVID Related Market Turmoil Recaps: Equities; Fixed Income and Structured Products

Monthly Market Metrics and Trends: www.sifma.org/insights-market-metrics-and-trends

- Statistics on volatility and equity and listed options volumes
- Highlights an interesting market trend

Market Structure Primers: www.sifma.org/primers

- Capital Markets: An Overview of Capital Markets and the Role of Financial Institutions
- Global Equity Market Comparison
- Capital Formation & Listings Exchanges
- Equities
- Options
- ETFs
- Fixed Income & Electronic Trading

Conference Debriefs

- Insights from market participants into top-of-mind topics
- Conference Survey Comparison, compares survey results across various conferences

Equity Market Structure Analysis

- The ABCs of Equity Market Structure: How US Equity Markets Work and Why
- Analyzing the Meaning Behind the Level of Off-Exchange Trading, Part II
- Analyzing the Meaning Behind the Level of Off-Exchange Trading
- Why Market Structure and Liquidity Matter

Top of Mind with SIFMA Insights

- Podcasts with market participants on key market and economic themes, including reference guides defining terms and providing charts on the topics discussed on the podcast

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