This year, as one of several announced roundtables, the Securities and Exchange Commission, or SEC, is convening a discussion on equity market access and market data. Nasdaq welcomes these roundtables and looks forward to thoughtful discourse between market participants and the investing public.

As a self-regulatory organization, Nasdaq plays an essential role in ensuring fair and orderly securities markets. Core to Nasdaq’s mission is the belief that markets are stronger when they are transparent and create a level playing field for investors.

As we consider reforms to the rules that address market structure and market data, stakeholders should proceed with a shared goal of strengthening U.S. exchanges and preserving their competitive incentives. The U.S. financial system is stronger when our exchanges are vibrant, when competition between and among exchanges and other financial information providers is robust, and when more trading happens in public rather than in “dark” venues, where investors do not benefit from proper price discovery.

Building off our 2017 Blueprint to Revitalize Capital Markets, Nasdaq is proposing three reforms to market data governance we hope will inform the upcoming roundtable and advance our shared goals to make our markets fairer, more transparent, and more competitive.
1. EXPAND THE AUTHORITY AND RESPONSIBILITIES OF THE SIP ADVISORY COMMITTEES

The consolidated stock market data feed and infrastructure that links U.S. exchanges and trading systems—known as the Securities Information Processors, or SIP—is governed by a committee of operating exchanges. Advisory committees of market participants provides guidance to the SIP operating committees. SIP governance should be structured in a way that reflects a true public interest partnership between exchanges and the industry, while also reflecting the varying degrees of legal obligations among market participants. The general investing public should also have a voice on the advisory committees, as the SIP committees are designed for public benefit.

We propose:

• Expanding the advisory committees’ authority on fee and policy-related matters

• Acknowledging and mitigating potential conflicts of interest among committee members

• Providing the general investing public a voice on the advisory committees

• Increasing obligations to advisors to promote public transparency

2. MODIFY THE SIP REVENUE FORMULA TO INCREASE MARKET QUALITY AND STRENGTHEN “LIT” QUOTES

Quotes on public exchanges are known as “lit” quotes because they can be seen by the public and therefore help inform current prices for retail and professional investors. Additional trading takes place in off-exchange, or “dark,” venues, commonly known as dark pools. Our financial system is stronger when there is vibrant competition between trading platforms and when more trading happens in public rather than in dark venues.

We propose:

• Modifying the SIP revenue allocation formula in a way that strengthens “lit” quotes and rewards behavior that increases market quality, tightens spreads, deepens quotes, and holds all trading platforms accountable for best execution, whether they are “lit” or “dark”

3. CLARIFY THE VENDOR DISPLAY RULE

The SEC’s Vendor Display Rule requires broker-dealers to show investors consolidated market data (SIP data) in certain circumstances. Recent SEC guidance has created confusion among broker-dealers about when they must use consolidated SIP data and when they may rely on representative data from a stock exchange (often a more economical choice, which can create value for retail investors).

We propose:

• Beginning a dialogue between the SEC, exchanges, and the investor community to remove this ambiguity

• Using the SEC’s forthcoming market-data roundtable to generate more clarity about the Vendor Display Rule

Overall, our analysis indicates that the regulatory scheme for U.S. stock market data is working. It produces a reliable national reference price for every stock; provides data at a reasonable cost to market participants; encourages innovation and competition among exchanges and market players, that results in even more choice and value to the retail and professional investor alike.

Nasdaq is grateful for the opportunity to suggest the above reforms. To read our full market data proposals document, click here. We look forward to discussing these ideas.