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## SIFMA Calls for Review of SRO Structure.

SIFMA today sent a letter to the Securities and Exchange Commission to request a review of the regulatory structure of broker-dealers, exchanges, and the self-regulatory model.

"SIFMA supports a holistic review of U.S. equity market structure to ensure safe, sound and efficient markets that investors can have confidence in," said Randy Snook, executive vice president. "A part of that review should focus on SRO structure, because the markets have changed to the point that the current structure of the self-regulatory model is widely viewed to be outdated and in need of reform."

In today's markets, securities exchanges and broker-dealer trading venues perform essentially identical functions. Nonetheless, the status of exchanges as self-regulatory organizations (SROs) has not changed, even as the exchanges have evolved from member-owned utilities to for-profit businesses, as well as active competitors with their broker-dealer members.

In its letter to the Commission, SIFMA identified key areas it believes the SEC should consider in its review, but noted the review should not be exclusive to those areas.

What is an Exchange and Why Is It an SRO? An exchange has two separate statutory functions: (1) an exchange acts as a marketplace for the trading of securities; (2) an exchange acts as a self-regulatory organization overseeing its members. In today's reality, the interests, incentives and functions of the member-owned cooperative exchanges of 1934 bears little resemblance to those of the current for-profit exchanges. Eliminating exchange's SRO status would streamline regulatory processes and make self-regulation more efficient by centralizing regulation.

Exchanges Compete with the Broker-Dealers they Regulate. Combined with the transformation of exchanges into for-profit enterprises in search of ways to expand their businesses, exchanges and broker-dealers have become direct competitors in many aspects of their businesses. Most prominent is the competition for order flow between exchanges and broker-dealers. In this competitive dynamic, the policy of having exchanges regulating broker-dealers has become outmoded.

Competitive and Regulatory Disparities. There are a number of competitive benefits flowing from exchanges' status as SROs, including limitations on liability, market data revenue, and ability to design market structure developments. In addition, exchanges are not subject to some of the significant regulatory requirements applicable to broker-dealers, such as best execution, supervisory controls, and financial responsibility. At the same time, SIFMA recognizes that exchanges are subject to unique regulatory requirements, including the requirement to submit rule changes for their business practices for SEC approval, fair access requirements, and ownership restrictions. SIFMA welcomes a discussion of these issues from both perspectives.

Funding of Self-Regulation. Broker-dealers are subject to numerous regulatory fees from SROs. For many exchanges, regulatory fees are intended to offset the exchanges' cost of outsourcing regulation to other SROs – such as FINRA-effectively duplicating costs on member firms. Currently, there is no way to assess the reasonableness the regulatory funding model without greater transparency into

SROs' existing regulatory fees as well as their actual regulatory expenses. SIFMA urges the Commission to consider requiring SROs to make this important information publicly available on a regular basis.

A copy of SIFMA's letter can be found at the following link: http://www.sifma.org/issues/item.aspx?id=8589944673.

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