



**american securities association**

*America's Voice for Main Street's Investors*

March 30<sup>th</sup>, 2022

The Honorable Maxine Waters  
Chairwoman  
Committee on Financial Services  
U.S. House of Representatives  
Washington, DC 20515

The Honorable Patrick McHenry  
Ranking Member  
Committee on Financial Services  
U.S. House of Representatives  
Washington, DC 20515

**Re: March 30<sup>th</sup> Subcommittee on Investor Protection, Entrepreneurship, and Capital Markets hearing entitled “Oversight of America’s Stock Exchanges: Examining Their Role in Our Economy”**

Dear Chairwoman Waters and Ranking Member McHenry:

The American Securities Association (ASA)<sup>1</sup> welcomes this opportunity to provide our perspective on several bills to be discussed at the March 30<sup>th</sup> hearing. We commend the Committee for prioritizing legislation that would promote competition in our nation’s equity markets and further the interests of retail investors.

The ASA has been a leading voice in the debate over equity market structure that has received heightened attention from Congress and the Securities and Exchange Commission (SEC) in recent years. Current regulations embrace a one-size-fits-all approach to market structure that has contributed to a decrease in initial public offerings (IPOs) and created harmful incentives in the market that benefit a legally privileged few. Current law also grants monopolistic pricing power to for-profit entities whose interests are not always aligned with retail investors.

Over the last 6 years, the ASA has submitted several recommendations to policymakers that we believe would make our equity markets more transparent and competitive. Two of these recommendations are set forth below:

- I. Promote competition in the equity markets:** One troubling development over the last decade is that as exchange membership has decreased, prices for market data products and connectivity have risen dramatically. This has ultimately led to increased costs for broker-dealers and investors while producing no clear benefits to

<sup>1</sup> The ASA is a trade association that represents the retail and institutional capital markets interests of regional financial services firms who provide Main Street businesses with access to capital and advise hardworking Americans how to create and preserve wealth. The ASA’s mission is to promote trust and confidence among investors, facilitate capital formation, and support efficient and competitively balanced capital markets. This mission advances financial independence, stimulates job creation, and increases prosperity. The ASA has a geographically diverse membership of almost one hundred members that spans the Heartland, Southwest, Southeast, Atlantic, and Pacific Northwest regions of the United States.



**American Securities Association**  
1455 Pennsylvania Ave. NW, Suite 400  
Washington, D.C. 20004



**AmericanSecurities.org**  
@amersecurities



**202.621.1784**



the markets. The only conclusion that can be drawn is that exchanges are driving up prices in order to make up for lost membership. We believe that Congress and the SEC should conduct a thorough examination of the concentration problem in equity markets and develop reforms that would increase competition and drive down costs for investors.

- II. Reforming payment for order flow (PFOF) arrangements.** The simple question ASA has long been asking is: does an order executed with PFO receive better execution than an order executed without PFOF. We believe the answer to that question is murky at best, and that the SEC should determine whether investors are receiving actual price improvement when an order involves PFOF. Such an examination should look at *both* wholesale and exchange PFOF given that you cannot change one without changing the other, and the fact that exchanges can assert their power in this area through maker-taker rebate programs.

Accordingly, the ASA is pleased to note our support for the following bills that will be discussed at today's hearing:

**H.R. \_\_ to amend the Securities Exchange Act of 1934 to add certain requirements for the filing and approval of proposed rule changes by self-regulatory organizations**

This bill would require that exchange self-regulatory organization (SRO) rule filings go through a more transparent and accountable process before they can be adopted. Currently, exchange SRO rule filings are a perfunctory exercise that receives little oversight from the SEC. This would bolster the exchange SRO rulemaking process and ensure that rules are subjected to proper due diligence.

**H.R. \_\_ the "Securities Exchange Reform Act of 2022"**

This bill would bring necessary reform to the immunity protections currently enjoyed by national exchanges. Additionally, the bill would give brokers and SEC-registered investment advisers a greater voice in the governance of Regulation NMS (Reg NMS) plans.

**H.R. 5795, the "Main Street Growth Act"**

This bill would create the legal framework for the registration and regulation of venture exchanges for the trading of EGC and small issuer shares. ASA has long supported this bill as we believe it is a necessary alternative to the existing one-size-fits-all market structure regime.





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**H.R. \_\_, to amend the Securities Exchange Act of 1934 to require the Securities and Exchange Commission to promulgate a rule prohibiting or limiting the use of tiered rebate payments by national securities exchanges.**

This bill would ensure that the SEC conducts a rulemaking to reform the existing PFOF system which has created harmful incentives amongst exchanges and other market participants. Reforming wholesale and exchange PFOF would ultimately benefit retail investors and those who have their capital at risk in the equity markets.

**Conclusion**

The ASA appreciates the Committee's leadership on these critical issues and looks forward to working with members as these bills advance through the legislative process.

Sincerely,

Christopher A. Iacovella  
Chief Executive Officer  
American Securities Association



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1455 Pennsylvania Ave. NW, Suite 400  
Washington, D.C. 20004



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 @amersecurities



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