

Statement for the Record
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before the
House Committee on Financial Services
Subcommittee on Capital Markets
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Chairman Wagner and Ranking Member Sherman, the Security Traders Association (STA)¹ appreciates the opportunity to provide a Statement for the Record for the hearing, “From Order to Execution: Ensuring Efficient and Transparent Equity Markets.” STA is pleased to share our views on the current state of U.S. equity market structure.

The STA was founded in 1934 and is an organization of professionals actively involved in the trading of financial securities. Our membership is diverse - geographically and across roles - including traders, market makers, broker-dealers, asset managers, and self-directed platforms.

STA’s statements on equity market structure are guided by three core principles: investor confidence through operational resilience; the benefits of competition; and the importance of a rigorous rulemaking process. Our statement for the record draws on STA comment letters to Congress and the Securities and Exchange Commission (SEC) over the decades. These letters, informed by broad input from market participants, aim to highlight both the intended and unintended consequences of market structure changes. We are pleased to continue that role today.

U.S. equity markets remain the most liquid, efficient, and innovative in the world. Regulation NMS (Reg NMS),² adopted in 2005 after extensive study, roundtables, and industry engagement, advanced the 1975 Congressional mandate for a National Market System (NMS) by promoting competition, best execution, and access. While imperfect, Reg NMS fostered technological advancements, narrower spreads, lower costs, and unprecedented retail accessibility.

Investor Confidence and Operational Capability

¹ STA is a trade organization founded in 1934 for individual professionals in the securities industry. STA is comprised of 24 affiliate organizations in North America with individual members who are engaged in the buying, selling and trading of securities. STA is committed to promoting goodwill and fostering high standards of integrity in accord with the Association’s founding principle, Dictum Meum Pactum – “My Word is My Bond.” For more information, visit <https://securitytraders.org/>.

² <https://www.federalregister.gov/documents/2005/06/29/05-11802/regulation-nms>

Investor confidence is influenced by several factors, none more than the operational capability of the markets. Even rare failures have the ability to erode trust more than debates over specific rules. Enhancing resilience must therefore remain the top priority.

U.S. equity markets continue to demonstrate strong operational capability. They have performed well during periods of extreme volatility and record volumes, delivering efficient price formation, reliable access for investors, effective quote management, and smooth clearance and settlement.

While robust operations cannot prevent sharp price moves, they help ensure sell-offs do not escalate into full-blown panics. The last such event was Black Monday, October 19, 1987, when inaccurate quotes, execution failures, and operational breakdowns accompanied a 22.6% drop in the Dow Jones Industrial Average - equivalent to more than 12,000 points today. Modern markets have avoided that outcome, thanks in large part to competition and technological advancements.

Competition

America's equity markets are highly competitive, with multiple exchanges, execution venues, market makers, asset managers, issuers of exchange traded products (ETPs), and self-directed platforms. This competition delivers clear benefits: lower transaction costs; deeper liquidity for large orders; faster and more accurate price discovery; and continuous innovation in execution algorithms, alternative venues, and data transparency. These improvements broaden access for both retail and institutional investors while enhancing overall efficiency.

Importantly, competition strengthens resiliency. Multiple, redundant venues and infrastructures eliminate single points of failure. During stress events, orders can be rerouted seamlessly, allowing markets to absorb volume spikes and recover more quickly.

The Rulemaking Process

STA has long supported a disciplined SEC rulemaking process rooted in the Administrative Procedure Act (APA). Effective regulation begins with pre-rulemaking tools, such as concept releases and roundtables, to gather broad stakeholder input before rule proposals are drafted. This should be followed by adequate notice and comment periods, robust cost-benefit analysis, and, where appropriate, targeted pilot programs.

Such an approach aids in producing practical, evidence-based rules that protect investors without unintended harm to liquidity or efficiency. STA urges the Subcommittee to ensure that any legislative or regulatory changes addressing the wide range of topics in today's hearing follow

this collaborative, data-driven process to ensure that the resulting rules are effective, evidence-based, operationally feasible, and consider the views of all stakeholders. By maintaining smart, evidence-based rulemaking and oversight, we can preserve America’s global leadership in capital markets, protect Main Street investors, and foster efficiency and innovation that benefit all participants.

Finally, changes in market structure need to take into consideration other asset classes such as listed options and exchange traded products, in particular, exchange-traded funds (ETFs).

ETFs have been transformative for investors, providing low-cost, diversified exposure and reshaping portfolios. Continued innovation in ETFs supports investor participation and capital formation. Reg NMS updates need to consider impacts to this asset class.

Options markets also contribute significantly to democratization, offering risk management and hedging ability. STA’s recent comments on the SEC’s Options Market Structure Reform Roundtable underscore the role of options in price discovery and liquidity.³

Global Competitiveness; Sustaining U.S. Market Leadership

The hearing rightly focuses on sustaining U.S. leadership defined by superior liquidity and retail accessibility and protection. U.S. markets lead globally due to depth of liquidity, technological advancement, and investor protections. To maintain this, regulation must balance effective oversight with creating conditions that foster competition and innovation. Overly burdensome rules could drive innovation offshore.

Historically, the Commission’s practice of issuing exemptive orders and no-action letters on a case-by-case basis for novel products, structures, and activities has effectively fostered innovation while safeguarding investor protection, market integrity, and financial stability. Today, however, when considering such relief for products and services that present heightened risks to investors or to the orderly functioning and integrity of the markets, we recommend that the Commission provide an opportunity for public notice and comment before granting exemptive relief.

Addressing Fragmentation

Market fragmentation has increased with more trading venues, but competition among exchanges, ATSs, and other centers has also driven efficiencies. STA supports maintaining core protections while allowing innovation in venue types. Excessive fragmentation can complicate

³ <https://www.sec.gov/rules-regulations/public-comments/4-887>

best execution, but data shows U.S. markets handle it effectively through connectivity between venues, smart order routing and technology. Policies should encourage consolidated liquidity where possible without stifling new entrants or specialized venues that serve diverse investor needs.

Democratization of Investing and Accessibility

U.S. markets excel in democratizing access. The competitive landscape among broker dealers and registered investment advisors is robust as measured by the broad range of products and platforms available to individual investors. Individual investors have access to financial advisors to assist in investment decisions and self-directed platforms which offer education and sophisticated tools once reserved only for institutions.

Consolidated Audit Trail (CAT) and Surveillance

The Consolidated Audit Trail (CAT) exemplifies challenges in NMS Plan governance. Conceived post-Flash Crash for enhanced surveillance, CAT's implementation as an NMS Plan has faced delays, cost overruns, and privacy concerns. STA supports CAT's goals but urges meaningful consideration be given to a more durable, long-term solution with the Commission owning and operating CAT. Direct ownership could deliver several key benefits: greater operational efficiency for the SEC in its use of data for surveillance, enforcement, and rulemaking; elimination of the conflicts inherent in SRO joint governance; clearer accountability; funding subject to the congressional appropriations process; and consistent, rigorous analysis of costs versus regulatory benefits. Most importantly, it would better align the system with its core mission as a regulatory surveillance tool rather than a multi-party industry utility.

Conflicts of Interest

Conflicts of interest require vigilant monitoring. Broker-dealers owe best execution duties, and transparency via updated Rules 605/606 help investors evaluate practices. Blanket prohibitions can create a one-size-fits-all outcome which can harm competition and limit investor choices. STA supports managed conflicts through disclosure and competition rather than mandates that may favor certain business models.

Small- to Mid-Sized Firms

Small firms and independent broker dealers face disproportionate burdens from complex rules. STA urges the SEC and Congress to tailor regulations, provide exemptions or simplified compliance where appropriate, and ensure rules do not consolidate power among large players. Preserving a diverse ecosystem of market participants strengthens resilience and innovation.

Tokenization of NMS Securities

Tokenization represents a significant innovation with the potential to deliver substantial benefits to our capital markets. However, legitimate concerns exist that certain critical investor protection and market functions performed today - such as custody, publicly available quotes, and effective linkages between exchanges and trading platforms - could be diminished in this new regime. With respect to issuer-sponsored tokens, where a company tokenizes its own securities and the token itself constitutes the actual security, STA strongly emphasizes that the trading regime for these tokens must be equivalent to the trading regime applicable to the underlying security.

STA stands ready to provide further input, including through our Annual Market Structure Conference and advisory committees.

Thank you for holding this important hearing and for your leadership in ensuring U.S. capital markets remain the world's premier venue for investors and issuers.



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