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United States Senate

COMMITTEE ON
HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
WASHINGTON, DC 20510-6250

April 8, 2011

VIA EMAIL

Mr. David A. Stawick
Secretary
Commodity Futures Trading Commission
Three Lafayette Center
1155 21st Street, NW
Washington, D.C. 20581

Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington D.C. 20549-1090

RE: **Request for Comments Regarding Findings and Recommendations of the Joint CFTC-SEC Advisory Committee on Emerging Regulatory Issues**

Dear Secretary Stawick and Secretary Murphy:

The purpose of this letter is to comment on the findings and recommendations of the Joint CFTC-SEC Advisory Committee on Emerging Regulatory Issues,[1] which were released on February 18, 2011 (the Joint Advisory Committee Report).[2]

BACKGROUND: SENATE INVESTIGATIONS AND HEARINGS

Over the past 18 months, two Senate subcommittees have held three hearings on issues related to the emerging regulatory issues in the trading markets. On October 28, 2009, the

[1] On May 11, 2010, just five days after a dramatic decline in the U.S. financial markets, the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC) created the Joint CFTC-SEC Advisory Committee on Emerging Regulatory Issues (Joint Advisory Committee), which was tasked with, *inter alia*, reviewing the events of May 6, 2010 and making "recommendations related to market structure and liquidity issues that may have contributed to the volatility of [May 6th]." Letter from the Joint CFTC-SEC Advisory Committee on Emerging Regulatory Issues to SEC Chairman Mary Schapiro and CFTC Chairman Gary Gensler (Feb. 18, 2011) (available at http://cftc.gov/ucm/groups/public/@aboutcftc/documents/file/jacreport_021811.pdf).

[2] JOINT ADVISORY COMMITTEE, RECOMMENDATIONS REGARDING REGULATORY RESPONSES TO THE MARKET EVENTS OF MAY 6, 2010: SUMMARY REPORT OF THE JOINT CFTC-SEC ADVISORY COMMITTEE ON EMERGING REGULATORY ISSUES (2011), available at http://www.cftc.gov/ucm/groups/public/@aboutcftc/documents/file/jacreport_021811.pdf.

Securities, Insurance and Investment Subcommittee held a hearing that surveyed some of the challenges to the markets faced by the recent rapid evolution of trading systems, marketplaces, and relevant regulations.[3] On May 20, 2010, just two weeks after the "flash crash," that Subcommittee held a hearing on the catastrophic market failure that we have since learned was made possible and exacerbated by some recent market structure developments.[4] Finally, on December 8, 2010, the Permanent Subcommittee on Investigations, which I chair, joined the Securities, Insurance, and Investment Subcommittee for a hearing that explored what Congress and regulators can do to better protect our markets from threats to their stability and integrity.[5]

While making no formal findings or conclusions, these hearings demonstrate that, at a minimum, the events of the May 6 flash crash highlighted how the SEC and CFTC staffs need basic tools to ensure the stability and integrity of our markets, including the development and implementation of:

(1) trading volatility controls;
(2) market access controls; and
(3) consolidated trading data collection and comprehensive supervision.

It is against this backdrop that I comment on many of the findings and recommendations of the Joint Advisory Committee Report.

JOINT ADVISORY COMMITTEE REPORT

Volatility Controls: Mechanisms to Slow and Stop Spikes and Crashes

The Joint Advisory Committee made several important recommendations that should be further strengthened and then implemented to help limit the possibilities for uncontrolled spikes and crashes in trading prices.

Items ##1, 2 & 9

The Joint Advisory Committee essentially endorses recent efforts by the SEC to develop and implement: (1) a "pilot" circuit breaker program that ultimately was expanded to provide a 5 minute pause for 10 percent price swings for any Russell 1000 stock and hundreds of exchange traded funds issues; (2) standardized rules for breaking trades; and (3) rules to limit market makers from ostensibly fulfilling a duty to make a two-sided market by providing stub quotes and near stub quotes. It also recommends that the SEC expand the circuit breaker program to

[3] "Dark Pools, Flash Orders, High Frequency Trading, and Other Market Structure Issues," before the Senate Securities, Insurance and Investment Subcommittee, Senate Committee on Banking, Housing, and Urban Affairs, 111th Cong. (2009).
[4] "Examining the Causes and the Lessons of the May 6 Market Plunge," before the Senate Securities, Insurance and Investment Subcommittee, Senate Committee on Banking, Housing, and Urban Affairs, 111th Cong. (2010).
[5] "Examining the Efficiency, Stability, and Integrity of the U.S. Capital Markets," before the Senate Permanent Subcommittee on Investigations, Committee on Homeland Security and Government Affairs and Senate Securities, Insurance and Investment Subcommittee, Senate Committee on Banking, Housing, and Urban Affairs, 111th Cong. (2010) ("Joint Hearing").

stocks outside of the Russell 1000, as well as additional ETFs.[6] The Joint Advisory Committee also recommends that the SEC evaluate incentives or regulations to encourage market makers to provide two-sided quotes that are "reasonably related to the market."[7]

Historically, different markets have had very different opinions on how to respond to severe liquidity events. On May 6, 2010, the disparate trading rules and conventions across the exchanges exacerbated the markets' collapse, and slowed the ability of regulators to re-construct how the collapse unfolded.

In the futures market, for example, the CME Globex Stop Logic program temporarily paused trading in response to the large market move for 5 seconds before restarting. This allowed liquidity to re-aggregate, and helped correct the temporary market imbalance. The NYSE, similarly concerned with volatile trading prices, implemented its Liquidity Replenishment Points (LRPs), which are intended to provide for a similar process of pausing so that liquidity could be re-aggregated to help balance out the buyers and sellers. Other market venues, however, had other views, including ignoring these imbalances and later breaking the clearly erroneously-priced trades. Because of the disparate treatment, although the futures prices quickly rallied after the pause from the stop logic,[8] there was nevertheless an uncontrolled cascade of price declines in the SPDR S&P 500 Index ETF (SPY) and hundreds of other equities. Thus, coordination among stock, options, and futures exchanges is critical.[9]

In addition to better coordination across markets, standardized rules for breaking trades could aid the marketplace by reducing the unknown risks to market participants who may be concerned about having their intended trades broken after the fact. Because many market participants were uncertain as to what trades might be broken, some of them elected to withdraw from the markets, pulling more liquidity from the markets at precisely the time liquidity was most needed.

Finally, the SEC should ensure that its efforts to both prohibit stub quotes and require market makers to provide a meaningful two-sided market are not easily thwarted. Put simply, a firm that enters orders that it never intends to have executed should not also be able to avail itself of any incentives for providing a meaningful, two-sided market.

While the SEC's rule regarding stub-quotes is a step in the right direction, the wide range and flexibility provided by the current proposal could allow pseudo-liquidity providers to simply ride the executions down so their orders are never executed. This may be the same for any efforts to force market makers to keep their quotes "reasonably related to the market." Accordingly, proposed rules should include anti-evasion authority to prevent market-makers

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[6] Joint Advisory Committee Report, at 3-4.

[7] Joint Advisory Committee Report, at 11.

[8] "Examining the Causes and the Lessons of the May 6 Market Plunge," before the Senate Securities, Insurance and Investment Subcommittee, Senate Committee on Banking, Housing, and Urban Affairs, 111th Cong. (2010) (testimony of Terrance Duffy, Chief Executive of CME Group).

[9] Joint Hearing (testimony of Thomas Peterffy, Chairman and CEO of Interactive Brokers Group) ("The … securities and futures markets … are inextricably linked, and it is critical for the rules and surveillance tools of the two markets to be coordinated with close coordination between regulators.").

from effectively achieving the same result as when they provide stub quotes or other far off-market quotes that are of no value to the price discovery process.

Item #3

The Joint Advisory Committee recommends that "the SEC work with the Exchanges and FINRA to implement a 'limit up/limit down' process" and "clarify whether securities options exchanges and single stock futures exchanges should continue to trade during any equity limit up/down periods."[10]

At first blush, it may seem unlikely that a broad-based equity index could experience a "flash crash," in large part because of the sheer volume of daily trading. Yet, the Staff Report pinned the underlying cause of the flash crash on a large sell order trading through the liquidity in the E-mini S&P 500 futures, causing liquidity to temporarily evaporate, and leading to corresponding declines in the equities markets. As prices fell, the futures market instituted a 5 second pause.[11] Once trading restarted after the break, the futures prices quickly rallied.[12]

Although liquidity was quickly restored to the futures market, the fragmented equities markets each responded differently, leading to an uncontrolled cascade of price declines in the SPY and hundreds of other equities. This price decline occurred despite the fact that the SPY is often the single most actively traded equity issue in the United States, making it literally the *least likely* equity to experience a temporary, catastrophic liquidity crisis. Further, while the NYSE paused trading for a number of its issuers on its platforms, trading continued in those stocks on other, often less-liquid venues, and so the prices in those continued to plummet.

Thus, the flash crash started not by a trading glitch or imbalance in the equities markets, but by one in the futures market: the imbalance between buyers and sellers in the futures market had a similar impact as if it had occurred directly in the equities markets.[13] Liquidity providers who were not required to stay in the market did not stay in.[14]

Given that interaction, the SEC and CFTC should further consider expanding the limit up/limit down process to include not just single stock options and futures, but also for broad-based futures and options. The May 6th collapse demonstrated how a collapse in liquidity and price for a broad-based futures contract (E-minis) quickly led to corresponding collapses in liquidity and prices in individual equities – a possibility that does not seem to be contemplated by the pilot program nor by the Joint Advisory Committee's recommendations. The SEC should also work with the CFTC to ensure that trading in related products across all trading venues is captured.

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[10] Joint Advisory Committee Report, at 4-5.
[11] "Examining the Causes and the Lessons of the May 6 Market Plunge," before the Senate Securities, Insurance and Investment Subcommittee, Senate Committee on Banking, Housing, and Urban Affairs, 111th Cong. (2010) (Testimony of Terrance Duffy, Chief Executive of CME Group).
[12] Id.
[13] *Compare* Marc Carlson, A Brief History of the 1987 Stock Market Crash with a Discussion of the Federal Reserve Response, at 7 (Nov. 2006); available at http://www.federalreserve.gov/Pubs/feds/2007/200713/200713pap.pdf.
[14] *Compare* Carlson, at 5.

Item #4

The Joint Advisory Committee recommends that the "CFTC and relevant derivatives exchanges evaluate whether a second tier of pre-trade risk safeguards with longer timeframes should be instituted when the 'five second limit' does not attract contra-side liquidity."[15]

The CFTC should impose some additional backstop mechanisms to allow for the restart of the markets it oversees, and coordinate those efforts with the SEC. While a five second pause may be sufficient to refresh liquidity when a crash or spike is caused by a temporary imbalance in orders, it may not be sufficient if there is an external driver influencing supply and demand.

Further, in the event that the pause is triggered, traders' automated systems may shut down or otherwise cause firms to withdraw from the markets. Because of the increased volatility and perceived risks, many firms' risk practices may require the decision to re-enter the markets to be made by a human, and not a computer. In such an instance, it seems unlikely that a human will identify the problem, analyze the impact, and determine to re-enter the previously volatile market in a mere five seconds. Thus, additional measures to encourage the return of liquidity should be implemented.

Item #5

The Joint Advisory Committee recommends that the Commissions revise the system-wide circuit breaker that has been in place since shortly after the crash of 1987.

For more than two decades, there has been a market-wide circuit breaker that has ostensibly guarded against such a system-wide failure. In response to the 1987 broad market crash, a circuit breaker was implemented across all equities exchanges to stop trading once the Dow Jones Industrial Average fell to a fixed amount. After those circuit breakers were triggered in October 1997, they were adjusted to hit at thresholds of 10%, 20%, and 30% declines in the Dow Jones Industrials Average from the start of the quarter.[16] Those thresholds have never been hit since.

The Joint Advisory Committee recommended that the Commissions evaluate whether to allow the market-wide halt to be triggered as late as 3:30 pm. The volume of trades that occur at the end of the day is often a very large portion of trading volume for the entire day. That volume may be one-sided, which may exacerbate rapid price movements as buyers and sellers may not effectively offset. Indeed a failure to halt a rapid broad market decline at the end of a trading day is precisely the "nightmare" scenario that I was warned about in the Joint Hearing in December.[17] Because of these types of concerns, the Commissions should consider applying the market-wide circuit breakers to the end of the day trading.

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[15] Joint Advisory Committee Report, at 5.

[16] See New York Stock Exchange Rule 80B (Trading Halts Due to Extraordinary Market Volatility) (explanation available at http://www.nyse.com/press/circuit_breakers.html).

[17] Joint Hearing (testimony of Thomas Peterffy, Chairman and CEO of Interactive Brokers Group); *see also* Joint Hearing (testimony of James Angel, Professor of Finance at Georgetown University).

Further, the Commissions should consider coordinating the circuit breakers across all of their related markets and ensuring that trading at all venues is captured at the same time. For the pilot program, the listing venue is ultimately responsible for notifying the other venues that the breaker has been triggered. By the time that notice is received, the trading in the issue may have already exhausted all of the liquidity in the order book, and thus resulted in executions more than 10% away from the starting price. Indeed, the pilot program circuit breakers have kicked in several times, and several of those instances have involved trades occurring after the trigger price was hit and at execution prices below the trigger price, which were then manually broken. This is similar to what happened on May 6th, when the Liquidity Replenishment Points on the NYSE were ineffective in halting the declines in part because trading in those securities continued at other market venues. Similarly, having an effective pause and reset mechanism in the futures market that was not well-coordinated with similar mechanisms in the equities and options markets left the latter markets effectively unprotected.

Item #8

The Joint Advisory Committee recommends that the SEC evaluate changes to the maker/taker pricing model, including building incentives for the exchanges to provide "peak load" pricing models, and that adjusting the National Best Bid and Offer (NBBO) to reflect access fees and rebates "may be another area that might benefit from review and adjustment."[18]

One of the causes of the precipitous collapse in liquidity on May 6th was the withdrawal of market makers from the trading markets. As the Joint Advisory Committee found, in times of market stress, market makers may not have sufficient incentives to display market liquidity.[19] The Joint Advisory Committee is essentially recommending that the SEC consider whether the exchange should offer rewards to market makers who stay in the markets at the times they are most needed. While recognizing that market makers may with withdraw from extremely volatile markets no matter what incentives they are offered, a serious review of alternative pricing models so as to encourage more on-exchange liquidity in times of stress may improve the stability of the markets. The SEC and CFTC should work together with their regulated entities to develop potential incentives for firms to stay in the markets during times of peak stress.

Access Controls

Item #6

The Joint Advisory Committee effectively endorses the SEC's recent efforts to ban "naked" access to trading systems and recommends that the SEC work with the Financial Industry Regulatory Authority (FINRA) and the exchanges to develop effective testing of sponsoring broker-dealers' risk management controls and supervisory procedures.

Currently, some exchanges and alternative trading systems allow broker-dealers to provide their customers with "unfiltered" or "naked" access to their trading platforms. However, naked access may allow otherwise unsupervised entities to create greater risks for erroneous

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[18] Joint Advisory Committee Report, at 10.
[19] Joint Advisory Committee Report, at 9.

trades or otherwise disruptive or violative trading.[20] Some have speculated that the sponsored firms may create significant risks, not only because they may be thinly-capitalized, but also because U.S. regulators may have very limited ability to identify and limit any negative impact from their trading. Indeed, one active market participant told the Permanent Subcommittee on Investigations that his "worst nightmare" involved a firm intentionally disrupting the market at the end of the day (outside of the current broad-market, circuit breaker time period) for profit or as an act of economic terrorism.[21]

The SEC and CFTC should consider implementing comprehensive, coordinated guidelines regarding allowing non-clearing members direct access to trading systems. Further, the Commissions should support the guidelines with robust examination and enforcement programs to ensure basic screening of access to our markets. While some clearing member firms may be willing to accept the risks associated with providing essentially an unfiltered pipeline into the markets, other market participants should not also have to bear the burdens of those risks. Accordingly, not only should the SEC greatly expand its market access proposal, but it should coordinate those efforts with the CFTC and its regulated markets.

Item #7

The Joint Advisory Committee recommends that the CFTC follow the SEC's lead and impose "strict supervisory requirements on [Designated Contract Markets] and [Futures Commission Merchants]" that allow others to use algorithmic order routing strategies and that the CFTC and SEC "review the costs and benefits of directly restricting disruptive trading activities with respect to extremely large orders or strategies."[22]

Enhanced coordination and cooperation between the SEC and CFTC would strengthen effective oversight, provide greater legal certainty, and minimize duplication and regulatory burdens. The CFTC and SEC staffs, in a joint report, have already attested to the importance of coordinating efforts to deter market manipulation.[23] That October 2009 report indentified market manipulation as an area in which there were some "divergence" between the securities and futures laws and recommended strenthening futures manipulation enforcement efforts to more closely align with securities enforcement efforts.[24]

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[20] Joint Advisory Committee Report, at 7.

[21] Joint Hearing (testimony of Thomas Peterffy, Chairman and CEO of Interactive Brokers Group); *see also* Joint Hearing (testimony of James Angel, Professor of Finance at Georgetown University) ("It definitely could happen.").

[22] Joint Advisory Committee Report, at 8.

[23] SECURITIES AND EXCHANGE COMM'N AND COMMODITY FUTURES TRADING COMM'N, A JOINT REPORT OF THE SEC AND CFTC ON HARMONIZATION OF REGULATION (2009), *available at* http://www.sec.gov/news/press/2009/cftcjointreport101609.pdf.

[24] *Id.*

When evaluating potentially manipulative or disruptive practices upon which to focus, the SEC and CFTC should keep in mind the activities described in FINRA's recent settlement with Trillium Trading LLC. In that case, Trillium's traders were allegedly manipulating the equities markets through combinations of legitimate, bona fide orders and phony orders.[25]

Over just the three month period examined, Trillium's traders manipulated the markets more than 46,000 times, netting profits of more than $575,000.[26] After four years and thousands of hours of investigation and analysis, FINRA ultimately entered into a settlement with Trillium over its alleged violations of NASD Rules.[27]

In the several years since the conduct involved in the Trillium case occurred, the markets have become increasingly complex and interconnected – providing sophisticated traders with new opportunities to engage in potentially manipulative and disruptive practices, including spoofing, quote stuffing, momentum ignition strategies, front-running, undisclosed proprietary trading, and improperly taking advantage of insider order flow information, that can involve one or more products and markets.

New rules to prevent disruptive trading should explicitly apply to trade order activity – in addition to completed trades – because orders can and do affect market prices. Traders suspected of placing manipulative or disruptive orders could be required to demonstrate that their order activities (including excessive cancellations, if applicable) were not motivated by an intentional or reckless disregard for the orderly execution of transactions. Shifting the burden of proof onto traders who place potentially manipulative or disruptive orders could significantly improve enforcement of disruptive and manipulative trading.

The SEC and CFTC should implement rules with sufficiently broad authority to prevent and punish a wide range of manipulative and disruptive activities. The rules should clarify that the regulators have the authority to prohibit any order or trading activity that may be detrimental to the normal price discovery process – not just those from "extremely large orders or strategies." Traders and their executing brokers could be required to have policies and procedures in place to assess whether orders they intend to submit will unreasonably impact the orderly functioning of the markets. For example, orders above certain size thresholds may need to be assessed on a pre-trade basis to ensure that they do not undermine the orderly functioning of the markets. Similarly, traders who submit orders in sufficient volume or frequency could be required to assess the impact, if any, that their orders (including cancellations) may have on the orderly functioning of the markets.

Further, such coordinated rules should make it clear that the SEC and CFTC can regulate orders and transactions in their respective markets to prevent manipulative and disruptive activities that may be felt only in other markets where trading may be effected – including markets and products regulated by the other regulator.

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[25] *In re Trillium Trading LLC*, Financial Industry Regulatory Authority Letter of Acceptance, Waiver and Consent, No. 20070076782-01.
[26] *Id.*
[27] *Id.*

Today, the complexity of the marketplace has created an entanglement of the futures, options, equities, and commodity cash markets. For example, if various orders in futures contracts are being placed with the intent to artificially influence prices in the cash markets, the CFTC might be unable to enforce the proposed anti-manipulation rule since no artificial prices are affecting a futures product; rather the artificial prices may occur solely in another market which is under the SEC jurisdiction. New rules should clarify that the SEC and CFTC have the authority to prevent such cross-market and cross-product manipulations and disruptions.

Consolidated Data Collection and Supervision

Item #14

The Joint Advisory Committee recommends that the "SEC proceed with a sense of urgency … to implement a consolidated audit trail for the US equity markets and that the CFTC similarly enhance its existing data collection regarding orders and executions."[28]

Professional traders today buy and sell stocks, options, and futures contracts with mind-numbing speeds. These traders often make their buy and sell decisions based on information they glean from direct data feeds that they purchase from the various market venues.[29] They may implement their execution strategies in fractions of a second using computers that they pay to locate physically at the market venues. Our regulators need to have trading surveillance capabilities that can identify modern manipulations, and put a stop to them before they undermine confidence in the integrity of our markets.

Currently, each exchange collects different and often incomplete data, making it extremely difficult to monitor and reconstruct trading activity that may involve millions of records across dozens of exchanges.[30]

The SEC and CFTC staffs need to have at least the same level of information as sophisticated market participants – meaning order information from all of the various market venues, across all related products.[31] The SEC's recently-proposed consolidated audit trail could largely help with the data collection, but that data must include related products – stocks, options, and futures – so that a complete picture of the market can be seen by regulators in the same way that it is seen by market participants.[32]

Regulators should carefully consider what order information should be collected. Some information, such as beneficial owner information, is essential.[33]

[28] Joint Advisory Committee Report, at 14.
[29] Joint Hearing (testimony of Manoj Narang, Chief Executive Officer, Tradeworx).
[30] Joint Hearing (testimony of Mary Schapiro, Chairman of the SEC).
[31] Joint Hearing (testimony of Manoj Narang, Chief Executive Officer, Tradeworx) ("[W]hat is needed to boost markets' confidence is for the markets' chief regulator to have these capabilities on its own."); *see also* Joint Hearing (testimony of Thomas Peterffy, Chairman and CEO of Interactive Brokers Group) ("[Regulators] need to be able to synchronize that data in the same way that a high-frequency trader, for instance, would.").
[32] See Joint Hearing (testimony of Manoj Narang, Chief Executive Officer, Tradeworx).
[33] See Joint Hearing (testimony of Thomas Peterffy, Chairman and CEO of Interactive Brokers Group)

Finally, and most importantly, the SEC and CFTC need to ensure that the comprehensive information, once collected, is effectively utilized. While it may make sense for venues to police their markets for compliance with their unique trading rules, it makes little sense for them to police for compliance with industry-wide mandates when they do not have enough of the data needed to do that job effectively. Given that, either (1) the venues should be given the data (again, likely in the form of some consolidated audit trail), or (2) the market surveillance function for industry-wide regulations should be provided to one or more third parties who use the complete set of data.

Although stock trading now occurs at literally hundreds of venues, our trading surveillance has continued to follow the outdated model of having each trading venue responsible for policing trading for manipulations on its own venue. Some exchanges, such as ISE, perform their trading surveillance themselves. Others, such as NYSE Euronext's three exchanges, contract with third parties to perform trading surveillance.

And while all of these market venues may each be seeking to do their best to identify, with an eye towards preventing, abuses in their venues, the lack of standards allows for some significant inconsistencies. Further, even if the trading surveillance within a market venue is excellent, that surveillance is of little utility in stopping sophisticated trading abuses. Put simply, there is no automated surveillance that aggregates trading from all market venues. Currently, regulators are not even capable of meaningfully screening for cross-venue manipulations.[34] In fact, a representative of FINRA told the Permanent Subcommittee on Investigations that "it is very plausible that certain market participants, knowing the extent of current regulatory fragmentation, now consciously spread their trading activity across several markets in an effort to exploit this fragmentation and avoid detection."[35]

The exchanges have enjoyed broad discretion as to how they police trading on their venues. The SEC has no required formal minimum standards, and has provided little meaningful oversight by SEC staff into trading surveillance practices. Indeed, over the past 5 years, the SEC staff has conducted no broad-based audits of trading surveillance across multiple venues. The audit reports describing the market surveillance programs at some exchanges produced by the SEC staff reflect wide variations and some serious deficiencies in the ability of some exchanges to conduct basic surveillance.[36]

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[34] See Joint Hearing (testimony of Mary Schapiro, Chairman of the SEC) ("I think our problem is we have so many markets and we have so many venues where trades are executed that just getting it to a point where we have consolidated data about the equity markets would be an enormous step forward. But it would be my hope that we would ultimately have a consolidated audit trail and the capability to surveil across related instruments.").

[35] Joint Hearing (testimony of Steve Luparello, Vice Chairman of FINRA).

[36] See Joint Hearing (response of Mary Schapiro, Chairman of the SEC, to Questions for the Record from Carl Levin, Chairman of the Senate Permanent Subcommittee on Investigations) ("Both the examination staff responsible for these reports and I do find these results troubling.").

CONCLUSION

The markets are more complex and integrated than ever before. And because professional traders move seamlessly between stocks, options, and equities, we need regulators to be able to do the same. Regulations designed to ensure the stability and integrity of our markets must be coordinated across all of the markets, and while the recent coordination by the SEC and CFTC is a useful step, I believe much more needs to be done.

Thank you for this opportunity to comment on the Joint Advisory Committee Report.

Sincerely,

Carl Levin
Chairman
Permanent Subcommittee on Investigations