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**Joint CFTC-SEC Advisory Committee on Emerging Regulatory Issues**
**August 11, 2010**

Thank you, Chairman Schapiro, Chairman Gensler and members of the Advisory Committee for the opportunity to speak here today. I am pleased to participate on behalf of Invesco at this meeting examining investors' perspectives of the May 6, 2010 market events. Invesco is a leading independent global asset management firm with operations in 20 countries and assets under management of approximately $560 billion.

An efficient and effective trading environment is crucial to our funds' shareholders and to investors at large. We therefore commend the Advisory Committee for its examination of the current structure of the U.S. equity markets, particularly the market events of May 6, and its continued interest in addressing issues that may impact investor confidence in these markets.

The large and sudden price dislocations experienced on May 6 were, in large measure, the result of flaws and inefficiencies in the current U.S. market structure. Specifically, the May 6 "flash crash" highlighted the need for: (1) updated market-wide and stock-by-stock circuit breakers; (2) effective and transparent procedures for resolving clearly erroneous trades; (3) an examination of the use and consequences of market orders; (4) an examination of the inconsistent practices used by the exchanges to address major price movements in stocks; (5) an assessment of the responsibilities and obligations of registered and unregistered "modern day" market makers; and (6) better coordination across all types of markets.

Several of these issues have already been addressed by regulators, including the need for stock-by-stock circuit breakers and better procedures for resolving clearly erroneous trades. In addition, discussions are ongoing among regulators and market participants regarding the inconsistent practices of exchanges when dealing with major price movements in stocks. The use of market orders and the current responsibilities of market makers are also being investigated by regulators and market participants. Invesco supports all of these efforts.

While the changes to the structure of the securities markets already underway in response to the events of May 6 should resolve some of the issues that contributed to the severe price declines on that day, it is critical that these changes not be viewed in a vacuum and instead be considered as one of several steps necessary to address the current inefficiencies in the markets. In its examination of the market events on May 6, the Advisory Committee should not lose sight of the broader market structure issues raised by the SEC's concept release examining the structure of the U.S. equity markets, including the adequacy of information provided to investors about their orders, the impact of high frequency trading, and undisplayed liquidity. These issues are equally critical to investors' ability to trade efficiently under the current market structure.

## Establishing Mechanisms to Address Extreme Price Moves

Removing all instability and volatility from the equity markets is neither possible nor appropriate. However, establishing mechanisms to address extreme price moves in the markets and volatility related to inefficient market structure will be critical in preventing a repeat of the May 6 market event. While the SEC and SROs, through the single stock circuit breaker rules and clearly erroneous rules, have begun to take steps to address extreme stock price moves and uncertainty regarding the breaking of trades due to those price moves, there are other steps that need to be considered to address future extreme moves in stock prices.

### Circuit Breaker Rules and Clearly Erroneous Rules

Invesco supported the single stock circuit breaker proposals as a means to mitigate the impact of sudden market volatility by implementing a trading pause for individual securities in times of market stress. Similarly, we strongly supported amendments to the rules relating to clearly erroneous executions to clarify the process for breaking erroneous trades and to provide uniform treatment across the exchanges for clearly erroneous execution reviews. However, we believe the whole notion of taking trades off the tape is generally detrimental to investor confidence. We would propose that the exchanges clearly define and articulate the parameters that constitute erroneous trades and then program their systems to detect and reject trades outside of those parameters. We believe uncertainty surrounding the clearly erroneous rules and the risks associated with entering orders during the drop in stock prices likely contributed to the rapid and dramatic May 6 market decline. Ensuring that only good trades are reported to the tape would provide investors and liquidity providers an increased level of confidence regarding the trading data they need to participate in good and bad markets.

### Use of Market Orders

As was clearly illustrated by the events of May 6 when there is a vacuum of liquidity, smaller market orders can have an outsized impact on the prices of securities. Market orders are orders which seek to be immediately executed at the best available price. On May 6, a vacuum of liquidity was created when a massive wave of sell orders hit the markets triggering liquidity replenishment points (LRP's) on the NYSE. These LRPs or speed bumps resulted in the NYSE going into "slow mode." Subsequently, NASDAQ and the other exchanges declared "self-help" against NYSE Arca. Self-help is a provision under Regulation NMS which allows one exchange to ignore the quotes of another exchange which is experiencing system problems. In this case the declaration of self-help allowed the other exchanges to essentially ignore the quotes on NYSE Arca. Thus as the various exchanges were determining where to route their orders to fulfill their Regulation NMS obligations they could do so without consideration to NYSE Arca. As this was happening, market makers and liquidity providers were widening their quotes or getting out altogether as the quote data they were receiving became less reliable. Small market orders and stop loss orders which were triggered when issues traded below their respective stop levels were left to execute against the very limited amounts of liquidity that was posted on other exchanges or market centers. In some cases the only available quotes left were the so-called stub quotes of some of the market makers. This complete lack of liquidity resulted in several well publicized $.01 prints in some securities.

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As an institution, we have long understood the significant risk of using market orders particularly as the market has become more fragmented. We abandoned their use many years ago in favor of marketable limit and limit orders. In light of the events of May 6 and the continuing issues small market orders have had in the market (*i.e.*, electing newly imposed single-stock circuit breakers on WPO, CSCO, C, APC), Invesco strongly supports the examination of the current practices surrounding the use of market orders, particularly the use of "stop loss" orders. We would recommend at the very least that exchanges or broker dealers who continue to use market orders do so using collars on the market orders they submit. A collared market order should only allow execution of the order within a certain percentage of the reference price (*i.e.*, 3% from the last sale). This would give their clients some level of protection from the impact market orders can have in the current environment and would likely reduce or altogether eliminate the issue of small share amounts triggering circuit breakers.

<u>Other Methods to Address and Prevent Extreme Stock Price Movements</u>

We believe that the self-help provision under Regulation NMS needs to be reviewed. Allowing an exchange to ignore another's quotes because of system issues unrelated to significant market activity is one thing, but the ability to ignore the quotes when there is a May 6 type of event is quite another. This provision of Regulation NMS was put in place many years ago to prevent manual markets from unnecessarily slowing down trading. It was also conceived at a time when there were very few high frequency trading firms and fast executions were defined in seconds not milliseconds. After all, are there many participants that would disagree with the wisdom of slowing things down a bit in times of significant upheaval as we clearly had on May 6?

There are other measures which have been adopted by various exchanges, the CME in particular, which may have broader appeal to other exchanges. For example the CME's Globex system uses price banding as an electronic verification process to prevent orders from being entered into the system which are substantially above or below current prices. From all indications this has proven to be an effective measure in reducing erroneous trades. The CME also uses price limits which allow a security to trade down to a predetermined percentage before triggering a "limit down" which means that the security can only trade at or above that level for 10 minutes. If the security is still trading down after 10 minutes, there is a 2 minute halt and then the security is free to trade until the next limit down.

<u>Need for Consistent Rules Across All Types of Markets</u>

The events of May 6 illustrated the interdependency of the equity, options and future markets, particularly the connection between price discovery for the broader stock market and activity in the futures markets. Invesco strongly supports a more robust discussion and examination of the linkages and interdependency of the equity, options and futures markets and whether rules need to be made consistent across all types of markets. We recognize concerns that certain rules are not coordinated across markets, including rules recently implemented to address the events of May 6. We would also view this as an opportune time to implement market-wide circuit breakers based on a broader index than the DJIA; the S&P 500 would seem to be the most sensible. We recommend that these circuit breakers be set on a percentage basis based on the prior closing level of the index.

Responsibilities of Market Makers

The role of traditional liquidity providers such as market makers has taken on more significance since the events of May 6, as the sudden absence of liquidity in the markets played a critical role in the severe decline in stock prices. Several ideas have been put forth to improve the operation of market makers that are worthy of further examination, including increasing obligations surrounding best price, depth of markets, and the maximum quoted spread obligation. To address concerns regarding the absence of liquidity in times of market stress, we recommend that the Advisory Committee examine these and other ideas that have been put forth including whether more stringent obligations are necessary for traditional market makers in times of market stress.

In addition to traditional market makers, an examination of other liquidity providers, particularly high frequency traders, is warranted. It is no surprise that high frequency traders and issues connected to high frequency trading have garnered the attention of regulators, Congress, and market participants in general. Given the significant market volume that high frequency trading now represents, high frequency trading impacts almost every aspect of the securities markets in one way or another. This was clearly exemplified on May 6 when many high frequency traders withdrew their liquidity after prices declined rapidly. As the SEC noted, these firms may have acted appropriately under current rules. Nevertheless, this raises the need to examine on an expedited basis whether new obligations should apply to liquidity providers such as high frequency traders.

No matter what side of the high frequency trading issue one may take, it is clear that the issues surrounding high frequency trading are ripe for further examination. While Invesco believes there are many beneficial high frequency trading strategies and participants which provide valuable liquidity and efficiencies to the markets, we also believe there are some strategies that could be considered as improper or manipulative activity. Therefore, we believe there is an immediate need for more information about high frequency traders and the practices of high frequency trading firms. Additionally, regulators should act to address the increasing number of order cancellations in the securities markets. It has been theorized that as many as 95% of all orders entered by high frequency traders are subsequently cancelled. Incentives that currently exist for market participants to route orders to particular venues, such as liquidity rebates, and any related conflicts of interest that may arise due to these incentives also need to be examined.

Addressing Inconsistent Trading and Market Structure Rules Across Markets

Fragmented trading markets and the differing rules and practices governing those markets were a significant factor in the price declines experienced on May 6. Specifically, there is a need for an examination of the use by exchanges of mechanisms to pause trading in a security and the impact such action may have on other exchanges which may not have similar mechanisms in place.

As we previously stated and the SEC has recognized, the combination of the NYSE going slow and other exchanges declaring self help against NYSE Arca severely limited liquidity on those exchanges that continued to execute orders in an automated fashion. While it is important for the Advisory Committee to study the impact of LRPs on trading on May 6, the declaration of self-help by the exchanges also raises a broader market structure issue that should be considered in examining the events of May 6 and market structure in general. Specifically, we believe an examination is warranted as to whether the current market structure has become too focused on the speed of execution over all other factors. At some point we believe that speed and price discovery have an inverse relationship and this dynamic needs to be understood.

**Other Market Structure Issues Impacting Investors**

As I mentioned, in its examination of the market events on May 6, the Advisory Committee also should not lose sight of the broader market structure issues raised by the SEC's concept release examining the structure of the U.S. equity markets. These issues are equally critical to investors' ability to trade efficiently under the current market structure.

Investors, both retail and institutional, are better off now than they were just a few years ago. Trading costs have been reduced, more trading tools are available to investors with which to execute trades, and technology has increased the overall efficiency of trading. Nevertheless, long-time challenges for funds remain. Posted liquidity and average execution size is lower while the difficulty of trading large blocks of stock has increased. New challenges also have been created by recent market structure developments, for example there is still virtually no incentive for institutions to publically post limit orders. This point was clearly on display on May 6.

In addition to the high frequency trading issues noted above, one of the areas in which action will be critical is the need for increased information to investors about the order routing and execution practices of broker-dealers and other trading venues. Improved information would allow investors to make better informed investment decisions, as well as assist regulators and public commentators in assessing current market performance.

Invesco looks forward to working with the Advisory Committee as it continues to examine the impact on investors of the May 6 market events. I thank the Advisory Committee, again, for organizing this panel. I look forward to answering your questions.