ModernIR
Market Structure Analytics™

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RE: 4-913 - Roundtable on Preparations for 24-Hour Trading

Introduction and Issuer Perspective

On behalf of my firm, I appreciate the invitation from the SEC Division of Trading and Markets to participate in the Roundtable on 24-hour trading ahead of expanding overnight trading hours to US exchanges. We see it as a probable precursor to tokenization of US equities.

We as a firm are not opposed to 24-hour trading, provided the expansion of the continuous auction market does not undermine the interests of issuers.

For over 20 years, ModernIR has supported US-listed companies with quantitative analytics of equity market behavior and strategies for driving shareholder value in Passive markets. We build software, algorithms and mathematical models to measure flows so companies understand the addressable market and its controllables.

Our clients aim to create shareholder value through disciplined business operation and efficient use of the equity capital markets. In a speech titled "Enhancing Our Equity Market Structure" in June 2014, then SEC chair Mary Jo White said, "The secondary markets exist for investors and public companies, and their interests must be paramount."

Within my community, reactions are generally muted – at least, until something goes wrong, a reason to do our best to get it right the first time.

A client who heads investor relations for a large Utility and member of the S&P 500 wrote to me, "If the proposed changes are being driven by the exchanges and quants who want more data to sell/consume and trade on for profits, to me it should not be a compelling reason to switch to 23/5. That does nothing for long-term value creation for 'real' investors."

My professional association, NIRI, conducted a poll of its members about 24-hour trading and, with NIRI's permission, I share the profession’s four major concerns:

- The impact on halts for earnings and other material news
- Volatility girders and protection
- Heightened risk of arbitrage between the thin overnight session and regular hours
- An increase in speculative trading

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We can summarize these four concerns with a single word: Volatility.

Issuers recognize that commencing Dec. 6, 2026, exchanges will join Alternative Trading Systems in offering overnight trading. I'm thus here to highlight what must be considered, evolved and improved. Public companies are fiduciaries. They are responsible for safeguarding shareholder returns.

Volatility, Arbitrage, and the Issuer Challenge

Already, trading outside market hours has dramatically increased volatility around earnings. In a January 2025 paper titled "Warp Speed Price Moves: Jumps after Earnings Announcements," UC San Diego professor Allan Timmerman and fellow researchers found that nearly all the statistically meaningful returns following earnings announcements occurred in roughly 30 milliseconds.

It can happen without any material volume, meaning hedge funds with gargantuan leveraged bets via prime brokerage reprice the equity with no input from big holders. That seems unfair.

Whatever the case, mitigating volatility risk generally, and specifically around earnings, has become a priority for public companies. Volatility increases equity cost of capital. It erodes the effectiveness of share buybacks. It damages the appeal of equities to index and Exchange Traded Fund baskets.

The primary flaw in the current plan is that it offers three different volatility-management regimes and no marketwide circuit-breaker protection at all. I know my fellow panelist Dmitri Galinov and the LULD committee have agreed thus far only on Version One for overnight girders. I urge the committee to unify the regime.

We have a set of continuously recalibrating volatility girders, the Limit Up/Limit Down regime, during market hours (930a-4p ET) triggered by short-term 10% moves. In the new overnight session (9p-4a ET), we have 20% static bands. In extended hours before the open (4a-930a ET) and after the close (4p-8p ET), there are none.

Could those loopholes be exploited?

Given the paucity of overnight flows, less than 1% of market volume currently, and we'll address this further below, it's not an imaginative stretch to suppose automated traders will game asymmetry.

I also question the effectiveness of the current LULD mechanism. I wrote in our blog some weeks ago about two stocks that each moved 70% in a day, one up, one down. Just one was volatility halted (13 times).

Suppose a stock trades at $5 and then suddenly at $5.50. That would trigger a halt and resolution spanning 15 seconds because it moved 10%. Well, what if the stock bleeds 8% down every five minutes and never triggers a LULD halt? Clearly, it happens. We may need new math.

With that backdrop and now near-continuous trading, how do issuers manage outcomes? Companies have generally reported earnings outside market hours, which will have no meaning in the orthodox sense come Dec. 6. While the gatekeeper "marketwatch" facilities at listing exchanges will still operate 7a-8p ET as they do now, how companies best shepherd shareholder interests amid continuous trading will evolve.

Academic studies show that companies reporting earnings in extended hours now have a 90% probability of a price move of two standard deviations. Might that be a product of pervasive arbitrage and derivatives in what used to be an equity market designed for issuers and their investors?

By ModernIR measures, 10% of volume is Active stock picking. About 20% of market volume is a byproduct of delta hedging or gamma scalping. Nearly half of volume has an investment horizon of a day or less. Under the Alternative Uptick Rule (Rule 201), routinely more than half of all market volume is also short – borrowed or market-making-exempt from short-locate rules.

Certainly, one can argue that market forces are repricing equities. But what kind of market forces? Not long-term, rational, committed owners.

Why This Matters: ETFs, Capital Formation, and Market Stability

Morningstar data show that two-thirds of assets are now Passive.

According to the same data, Active stock-pickers see $35 billion per month of redemptions on average. Passives deploy about $75 billion in equities every month, most of it flowing to ETFs. It's a trillion-dollar annualized swing that's happened for 15 years.

ETFs are not picking stocks in the conventional sense to deliver alpha. They seek stable, predictable, liquid securities that offer beta, the performance of the market, with minimal risk and modest cost. Specifically, they use equities as collateral.

Volatility harms the creation/redemption process and both the wholesale and secondary-market arbitrage mechanisms by making them less predictable. If a company's shares gyrate overnight, the stock can be removed from a basket for fostering excess standard deviation.

ModernIR data show it can take a calendar quarter or two, or more, before a stock accumulates sufficient data to permit inclusion in ETF baskets again, which can mar relative performance for months or longer.

Summarizing, it is vital that the market's near-continuous auction not promote volatility and arbitrage at the expense of the appeal of stocks to the biggest buyers.

Which brings us to the other big consideration: Does the stock market foster capital formation?

IPO data from professor emeritus Jay Ritter at the University of Florida indicate that the capital-raising feature of the public market does not work particularly well. Most IPOs one year later now trade below their IPO prices.

Trading in the secondary market supports capital formation to the degree that it fosters liquidity and stability.

Dwarfing all other fund flows combined are ETFs. There are 5,200 trading in US markets, Investment Company Institute data show, more than half of which rely on the same set of domestic equities. They create and redeem $1.3 trillion of shares monthly thus far in 2026, averaging more than $100 billion of net new shares monthly.

Because ETFs are not investment vehicles in the traditional sense but collateralized substitutes for stocks, much as tokens will be, stability and predictability of prices have become vital to the ecosystem.

As a consequence of these trends, the market's dependency on a relatively small set of securities has reached extraordinary levels. The thousand largest stocks comprise 97% of market capitalization. The S&P 500 is roughly 90% of it. Just 150 stocks are nearly 75% of all market capitalization. And 90% of ETF assets are in large caps.

We can debate the merits of these features another time. For this Roundtable on trading, the key point is that extending trading hours to a near-continuous tempo should not promote volatility or decrease predictability.

Were that to happen, we may see more concentration risk, less opportunity for US-listed companies to serve as collateral for ETF creations and redemptions, and heightened unpredictability for the DTCC's Continuous Net Settlement mechanism for ETFs.

The Economics of Overnight Trading and Recommended Safeguards

With thanks to the SEC for data on overnight trading thus far via Alternative Trading Systems, the volume is comprised primarily of order flow that public companies do not seek.

Less than 1% of volume currently transacts during the overnight session, between 9p-4a ET. Of that 1% of total volume, just 7%, using Consolidated Audit Trail categories, is institutional flow.

By contrast, about 65% of volume occurs in the opening and closing auctions (including the 30-minute lead-up to it) during regular market hours, Nasdaq data show.

If the current 50/50 trading split between registered stock exchanges and Alternative Trading Systems during regular hours manifests in the overnight session, with exchanges joining and the Securities Information Processor adding uniform data, we can expect volume 9p-4a ET to rise near 1.5% to 2% of daily totals.

Academic researchers at the University of Lausanne Swiss Finance Institute, Emory University and the University of Florida authored a paper titled "Price Impact in Closing Auctions, Opening Auctions, and Continuous Markets" that found transaction costs in the closing auction were roughly half those of a continuous market.

The closing auction offers reference prices for Net Asset Value calculations, pricing of ETF creation and redemption baskets, and create/redeem hedging strategies. In short, the Closing Auction reflects the flows and controlled-volatility environment that public companies and their largest investors need.

How do we assure that overnight trading does not propagate the tyranny of the minority, where a handful of tiny trades reprice baskets, hedges and shareholder value for the top 25 holders of most US equities? At root, it’s volatility risk.

I propose three safeguards:

1. Volatility girders should be tight, uniform and reliably adapted to markets so they cannot be gamed and arbitraged.
2. The same market rules for best execution (FINRA Rule 5310) should uniformly apply across all trading sessions.

3. We need *marketwide* circuit-breaker protection.

We accept that continuous trading is happening and will continue to happen. In a stock market dominated by ETFs that use equities as collateral for creations and redemptions, uniformity of rules is essential. Otherwise, the ecosystem could be destabilized to the detriment of US issuers and ETF investors.

Governed uniformly by rules mitigating volatility risk, it may be an enhancement. Currently, the question is not whether overnight trading will exist, but whether it will operate in a manner consistent with the interests of issuers and their long-term shareholders.

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