COMMENT ON PREPARATIONS FOR 24-HOUR TRADING

*Investor Protections In An Overnight Market*

**File No. 4-913**

**SEC Commissioners**

**Securities and Exchange Commission**

**100 F Street, N.E.**

**Washington, D.C. 20549**

*Introduction*

Dear SEC Commissioners, I am writing to comment on the Securities and Exchange Commission's Roundtable Preparations for 24-Hour Trading, File No. 4-913. I am commenting from the perspective of a Finance student at the University of Kentucky studying investment markets. The idea of extending market hours to 24 hours presents several benefits for investors. However, simply increasing the number of hours in which investors can trade does not improve the quality of the market where these trades occur. While I do recognize the potential benefits of a 24-hour trading schedule, I do believe the Securities and Exchange Commission should approach the transition cautiously. Protecting investors and ensuring market quality should be the number one priority during the pace of the expansion.

*Acknowledging The Benefits*

There are plenty of benefits in the idea of transitioning the market to a 24-hour trading schedule. To begin with, transitioning to a 24 Hour trading schedule will allow for global accessibility in the market. The U.S. market attracts investors all around the world, and the current trading schedule occurs at very inconvenient times for investors internationally. Switching to an overnight trading schedule will allow for a very large number of investors to efficiently trade in the U.S. market when it is convenient for them. Next, switching to an overnight market will allow for better reaction to information for all investors. Market-moving announcements like earnings reports, economic developments, and geopolitical events often can occur after traditional market hours, which can cause traders to be unable to act on these events. In an overnight market traders will have more options and be able to effectively act on any information. Finally, there is a very great demand that already exists in the U.S. market, and allowing for more international investors will just increase that demand since they're able to trade when it is convenient for them. Allowing investors to respond to information promptly instead of waiting for trading hours to open has very clear value. However, the benefits of transitioning to a 24 hour trading schedule need to be carefully weighed against whether the overnight markets can consistently provide investors with liquidity, pricing and protections that are necessary in the U.S. equity market.

*Continuous Trading Does Not Guarantee Liquidity*

The primary concern I have with the transition to an overnight market is the difference in liquidity between the normal and overnight market. During market hours, there are very large numbers of investors trading, and overnight there could be a drastic decrease in the number of buyers and sellers. During an instance of a large decrease in buyers and sellers would raise a problem of reduced liquidity, which could potentially lead to wider bid-ask spreads, poorer execution quality for investors, and greater price volatility on securities. For example, take a stock with a normal trading session bid of $150.00 and an ask of $150.02. In a less liquid overnight market, that same stock, when trading at low volumes, becomes much less liquid and has a bid of $149.50 and an ask of $150.50, though the investor now has the opportunity to acquire the stock immediately, the price of doing that comes at a pretty high cost. This shows an important distinction between market quality and market access. Yes, it is very beneficial to all investors to have immediate access to the market, but it also hurts more when the access comes with a price increase on the securities. Also, in the instance of an overnight discovery that could significantly alter a security's price, this problem will only become more crucial.

*Overnight Investors Need Reliable Price Discovery*

Liquidity is also closely related to whether or not, in an overnight market, investors can reliably determine a security's best price. U.S. equities are not just traded on one exchange, they are traded across several different execution venues. The venues compete for order flows while also ensuring investors see the best available prices. In an overnight market, pricing doesn't necessarily operate the way it does during regular trading sessions. For example, suppose an overnight venue has a security priced at $123.00 while another venue offers the same security priced at $122.50. If the potential investor's brokerage only shows or has access to the first venue, then the investor is missing out on the lower price and will execute a trade without even knowing about a better available price. If overnight trading becomes more prominent in the future, then investors should not be expected to accept weaker price transparency solely because they’re trading outside of traditional hours. With that being said, the commission should consider whether or not trading outside of traditional hours should be accompanied by more efficient price transparency.

*Investor Protection Must Expand Alongside Trading Hours*

Investor protection is one of the most important aspects of having an efficient market. In the scenario that the commission moves forward with overnight trading hours, investor protection and market oversight must continue to expand with the hours. When fewer market participants are present in an overnight market, resulting in a low-liquidity environment, the possibility of an increase in price manipulation could occur. The possibility of having a thinner overnight market could allow traders to take advantage of the low level of trading activity and pursue trades that could effectively change the prices of the securities more easily. When transitioning to an overnight market, it isn't as simple as just an exchange's computers staying on. There will need to be 24-hour access to all market data, customer support, cybersecurity, risk management, brokers, and exchanges to effectively work the same overnight as in traditional hours. There have been recent expansions in clearing infrastructure that show the industry has already begun serious progress towards longer trading hours. However, technological progress alone should not be a deciding factor in moving towards an overnight market. The commission should take secure measures to ensure that an overnight market has quality liquidity, bid-ask spreads, execution quality, price transparency, and surveillance before expanding.

*Conclusion*

In conclusion, the transition to an overnight market definitely has real benefits for international investors and investors that are seeking to efficiently respond to new information quickly that affects the market. However, the purpose of an equities market isn't just to remain open longer. It must also provide investors with an environment that is efficiently protected, transparent, and provides reasonable execution quality. With that being said, I ultimately oppose the SEC’s transition to an overnight market under current market conditions, but I would reconsider my position if the SEC provided an in-depth plan on how investor protection, liquidity, price execution, and infrastructure will support the transition. If the U.S. equities market ultimately transitions to a 24-hour trading schedule, then that transition shouldn't happen overnight.

*Respectfully submitted,*

James Cooley

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The views expressed here are my own and do not represent the University of Kentucky.