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SEC approves experiment with stock exchanges on issues raised by high-speed trading

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- In recent years, new companies with different pricing models have launched to combat the current perceived flaws in the way exchanges operate. One firm, IEX, was highlighted in Michael Lewis' book "Flash Boys" as one of these new models.

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The U.S. Securities and Exchange Commission approved Wednesday a proposal to test how the stock market may be affected by the fees that exchanges pay traders for their business.

Critics of the existing pricing structure, known as "maker-taker," have frequently said it gives some brokers and other market participants incentives to execute trades that are not in the best interests of investors. They say high-speed traders going after the rebates the exchanges pay distort the market.

"We think this pilot will actually prove in the end that we don't need rebates to trade and we can use a flat-fee structure," said **Themis Trading's Joe Saluzzi**, who has long called for the commission to examine the maker-taker system.

The proposed experiment will have three test groups, including one that eliminates fees. The test is set to last one to two years, at the discretion of the commission, and will apply to all national equities exchanges. The proposal will be open for public comment for 60 days following its publication in the Federal Register.

"The proposed pilot is designed to generate data that will provide the Commission, market participants, and the public with information to facilitate an informed, data-driven discussion about transaction fees and rebates and their impact on order routing behavior, execution quality, and market quality in general," SEC Chairman Jay Clayton said in a release.

In recent years, new companies with different pricing models have launched to combat the current perceived flaws in the way exchanges operate. One firm, IEX, was highlighted in Michael Lewis' book "Flash Boys" as one of these new models.

"It's a very credible proposal and certainly increases the chances they will start a fee pilot," said John Ramsay, chief market policy officer at IEX. "Investors should feel heartened."

Some of the exchanges may not like this development "because that kind of questions their business model," Ramsay said.

Shares of Nasdaq, an early supporter of the current structure, closed 1 percent lower following the SEC approval.

Spencer Mindlin, an analyst on capital markets technology at Aite, said the "Flash Boys" book took "an extremely narrow view of market structure" and that a more nuanced approach is needed.

"This pilot feels very much still a reaction to the book, pits business models against one another, and hints at attempts to pick winners and losers," Mindlin said. "The pilot will be ripe with unintended consequences. It will be the investors that bear the burden of compliance: higher explicit commissions, impaired liquidity, or reduced choice. And while market structure is not perfect, the market is extremely efficient and the costs for large and small investors to participate are spectacularly low."