Response to SEC – Proposed Rule on Trade-Through and Locked and Crossed-Markets Provisions of Regulation NMS

17th August 2026

Summary

The World Federation of Exchanges welcomes the opportunity to respond to the Commission's consultation on such an important topic. We welcome a review of Rule 611 (the trade-through rule) as we consider it a valuable exercise, particularly given how far markets have evolved since the creation of 611.

Rule 611 is deeply embedded within the broader U.S. market structure framework. Market participants have spent nearly twenty years designing systems, order routing practices, compliance processes, and, above all, commercial arrangements around the requirements of the Trade-Through Rule. As a result, its removal should not be viewed as a simple deregulatory measure. Rather, it would represent a significant structural change that would create a fundamentally different market environment from the one that exists today.

For this reason, the merits of rescinding Rule 611 should not be considered in isolation. The case for removing the Trade-Through Rule is compelling only if accompanied by a broader review of the regulatory framework. These include:

- whether it is appropriate that bilateral trading has evolved from facilitating block trades designed to minimise price impact into the widespread internalisation of retail order flow.
- why alternative trading systems (ATSs) and single-dealer platforms have greater flexibility in setting fees, and why these venues are able to segment order flow while exchanges cannot.
- whether the current Securities Information Processor (SIP) allocation of quote credits remains appropriate, given that it may incentivise venues to maximise quoting activity without corresponding execution, creating a misalignment between market behaviour and market quality.
- whether the Rule 19b-4 filing process remains a suitable regulatory framework for exchanges in an environment of rapid technological and commercial change, particularly when competing non-exchange venues are not subject to equivalent requirements.

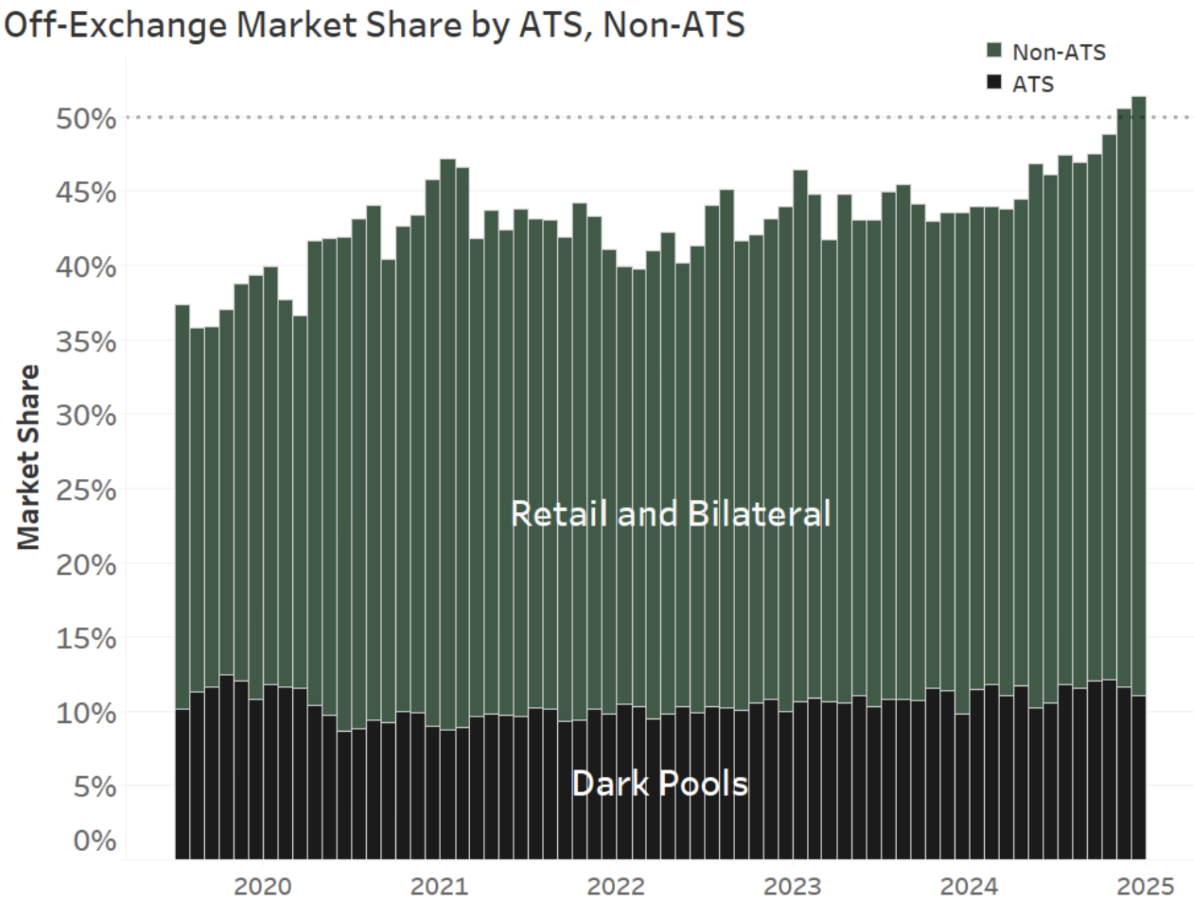
Furthermore, other consequential changes addressed in the consultation need to be undertaken. Namely, the Commission should:

- reconsider retaining Rule 610's access fee caps, as the original justification for those caps was to prevent exchanges from exploiting the mandatory order routing created by the Order Protection Rule.
- provide clearer guidance on how broker-dealers are expected to satisfy their best execution obligations, particularly how they should balance price against other execution factors such as speed, certainty, liquidity, and overall transaction costs.
- proceed with eliminating the prohibition on locked, as these restrictions are difficult to justify without Rule 611 and unnecessarily constrain competitive price formation. Allowing locked quotations would promote tighter spreads, strengthen displayed liquidity and price discovery, reduce operational complexity, and enable market forces to play a greater role in delivering efficient execution outcomes.

We therefore encourage the Commission to consider a comprehensive market structure review. Subject to appropriate consideration of the consequential changes required elsewhere in the

regulatory framework, we believe there is a credible case for rescinding Rule 611. However, the success of such a reform will depend not only on the removal of the rule itself, but also on ensuring that the broader regulatory framework is adapted in a coherent and consistent manner to support the resulting market structure.

The Price Discovery Problem



Tabb Forum, 2025[1]

In the past decade we have seen a decline in on-exchange trading. The growth of dark pools in the early 2000s has largely plateaued but the growth of bilateral trading, fueled by internalization of retail orders, has been exponential. This is a global phenomenon with UK and EU markets in particular following suit. Nevertheless, nowhere is this problem more acute than in the US.

And it is a problem.

Price discovery is perhaps *the* defining characteristic of exchanges and public markets. Bilateral trading undermines this. This process of price discovery is what ensures a fair price for investors. By providing transparent and publicly observable prices, exchanges help investors determine fair value, reduce information asymmetries and lower trading costs. These reference prices benefit all market participants, including those trading off-exchange, and support best execution obligations.

Effective price discovery also promotes capital formation and economic growth. Transparent secondary markets reduce liquidity risk, lowering issuers' cost of capital and supporting investment in

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[1] https://tabbforum.com/opinions/off-exchange-trading-increases-across-all-types-of-stocks/

the real economy. By aggregating dispersed information into market prices, price discovery helps investors allocate capital efficiently, supports asset valuation and informs corporate decision-making.

More broadly, robust price discovery strengthens competition, market integrity and investor confidence by ensuring prices are formed through open and transparent trading. Reliable market prices serve as important reference points across the wider economy, supporting investment decisions and fostering trust in financial markets.

Therefore, it is important that the SIP-provided National Best Bid and Offer (NBBO) remains strong. The Commission should consider how to preserve strong incentives for market participants to contribute displayed liquidity and support robust price formation in the public markets. The Commission should be mindful of the potential effects on displayed liquidity and price discovery and we would encourage further analysis on the proposals effect on displayed liquidity as well as the effect on the robustness of the NBBO. In the absence of Rule 611, market participants may have greater discretion to route orders based on a wider range of factors, potentially reducing the incentives associated with displaying the most competitive quotations.

The Commission should therefore consider whether complementary reforms are needed to ensure that displayed markets remain attractive venues for price formation.

Make American Markets Greater Still – Time for a General Review of Market Structure

US markets are the envy of the world but that does not mean that we should be complacent. Secondary markets are very clearly linked to the performance of primary markets[2] and in the past seven years the world's listed companies have created $82trn in market value – we want to make sure that companies continue to have the opportunity to raise capital through these avenues. We also want to continue to offer trusted marketplaces that enable investors to generate growth.

As a result, we would encourage the Commission to undertake a holistic review of the current market structure. In doing so, they should consider whether the system reflects a deliberate design choice, or whether it has evolved unintentionally over time. As part of this review, we would encourage the Commission to focus on four areas:

Firstly, **whether it is appropriate that bilateral trading has evolved from enabling block trades to reduce price impact to the internalisation of retail order flow**. The original intention of policymakers was to enable bilateral trading for the purposes of block trades could not easily be executed on lit markets without causing undue price impact. Allowing such trades to take place off-exchange was intended to support market efficiency by enabling institutional investors to manage liquidity needs discreetly. This flexibility was conceived as a targeted exception, rather than as a foundation for widespread migration of routine trading away from transparent markets which it has now become.

Importantly, fewer trades on exchange can also increase the costs of trading on exchange for investors. There is an incentive to take the most profitable trades, where traders earn the bid-ask spread, away from exchanges. As a result, the less profitable trades could be left on exchanges. Firms providing liquidity on exchanges rely on earning the spread to make money. If they capture the spread less often at the best available prices, they come under pressure. To stay profitable, they may widen

[2] https://www.world-exchanges.org/our-work/articles/attracting-new-listings-what-shapes-ipo-activity-across-markets

their quoted spreads. Wider spreads help compensate for the fact that they are less likely to receive the most profitable trades. The long-term move towards more off-exchange trading over the past 20 years is unlikely to reverse on its own and would probably require regulatory action to change.

Secondly, **why ATS and single-dealer platforms can segment order flow when exchanges cannot**. At present, exchanges are constrained in their ability to innovate and compete for displayed liquidity. The Commission should provide exchanges with greater flexibility to develop new market structures, pricing models, and incentive mechanisms that better serve different segments of the market while strengthening the integrity of the NBBO. The Commission should give exchanges greater freedom to design competitive fee and incentive structures that attract quoting activity, narrow spreads, and ultimately deliver better prices and lower trading costs for investors.

Thirdly, the Commission should consider **whether the current methodology for allocating Securities Information Processor (SIP) quote credits remains appropriate**, given that it may incentivise quoting activity without corresponding execution, creating a misalignment between market behaviour and market quality. Under the existing framework, SIP quote revenues are allocated equally among exchanges displaying the national best bid or offer (NBBO) based on the time their quotations remain at the NBBO, regardless of whether a venue originated the quote or merely matched it. This raises the question of whether the current allocation methodology appropriately rewards meaningful contributions to price discovery and displayed liquidity.

Finally, the Commission should consider **whether the current Rule 19b-4 filing process remains an appropriate regulatory framework** for exchanges in an increasingly dynamic and competitive market. Every material change to an exchange's rules, products, pricing, or functionality must generally be submitted to the Commission through a Rule 19b-4 filing, often involving lengthy review periods before implementation. By contrast, many competing trading venues (including alternative trading systems, single-dealer platforms, wholesalers, and other off-exchange market participants) are not subject to comparable approval requirements and can adapt their products, services, and commercial offerings far more quickly in response to changing market conditions and customer demand.

This asymmetry places exchanges at a structural competitive disadvantage. In markets characterised by rapid technological innovation and evolving trading practices, the ability to respond quickly is itself an important competitive attribute. Requiring exchanges to obtain regulatory approval before making routine commercial or operational changes slows innovation, increases compliance costs, and limits their ability to compete effectively against venues operating under more flexible regulatory frameworks.

If the Commission's objective is to promote competition and reduce unnecessary regulatory burdens, it should carefully reassess whether the existing Rule 19b-4 process remains fit for purpose. The Commission could rely more heavily on principles-based regulation, transparency, and robust supervisory and enforcement oversight to ensure investor protection and market integrity. A modern regulatory framework should allow exchanges to innovate and compete on more equal terms with other market participants while reserving formal Commission review for changes that raise genuinely significant policy or investor protection concerns.

Consequential Changes as a Result of Rule 611 Addressed by the SEC Consultation

Throughout the rest of this submission, we will address areas linked to 611 which can be changed or improved to help restore this balance and other consequential changes as a result of the proposal. Namely, access fee caps, best execution and locked markets.

Access Fee Caps

The Commission should reconsider retaining the existing Rule 610 fee caps. The Commission historically recognised a close relationship between Rule 610's access fee caps and Rule 611's Order Protection Rule. When adopting Regulation NMS, the SEC stated that the fee limitation in Rule 610 was necessary to support the integrity of the price protection requirements established by Rule 611. The logic was straightforward: because market participants were required to route orders to protected quotations irrespective of venue, fee caps were needed to prevent exchanges from exploiting that regulatory obligation through excessive access fees.

The Commission's proposal to eliminate Rule 611 fundamentally alters that framework. If broker-dealers are no longer subject to a trade-through obligation, the original justification for regulating exchange access fees is substantially weakened. Market participants would have greater discretion over where to route orders and could take exchange fee levels into account when making execution decisions. Competitive pressures, rather than regulatory mandates, would therefore play a larger role in constraining exchange pricing.

A similar question arises in relation to the Commission's oversight of market data and connectivity fees. Critics of the current framework have argued that the Trade-Through Rule effectively compels broker-dealers to maintain connectivity to multiple exchanges and consume exchange market data, thereby reducing the disciplining effect of competition on these services. Whether or not one accepts that argument, the elimination of Rule 611 would remove a key element of that concern. As market participants gain greater freedom to determine which venues they access and utilise, the Commission should reassess whether its current approach to reviewing exchange market data and connectivity fees remains appropriate in a post-Rule 611 environment.

Best Execution

The Commission should provide greater clarity regarding how best execution obligations will operate once Rule 611 is rescinded. In particular, additional guidance would help market participants understand how broker-dealers are expected to balance competing execution factors in a market no longer governed by a trade-through prohibition. Furthermore, best execution should be a supervisory and enforcement priority for the SEC to ensure that retail investors are getting the best deal they can.

The Commission's decision to rescind Rule 611 raises important questions about the role of best execution as the primary investor protection mechanism for order routing decisions. When Regulation NMS was adopted, Commissioners Atkins and Glassman argued that, rather than relying on a prescriptive order protection rule, the Commission could have provided clearer guidance on best execution, including how broker-dealers should weigh the various factors relevant to routing decisions. With Rule 611 set to be removed, that question becomes increasingly important.

In the current market structure, Rule 611 provides a clear regulatory requirement to avoid trading through protected quotations. Once that requirement is eliminated, broker-dealers will have greater discretion in determining how to achieve best execution for their customers. Greater Commission guidance would therefore help ensure a common understanding of regulatory expectations and reduce uncertainty for market participants.

In particular, the Commission should clarify the relative importance of price and other execution factors. While price is a fundamental component of best execution, and probably the most important factor for retail when trading listed equities, it is not the only consideration. Execution quality, speed, certainty of execution, market impact, liquidity, and overall transaction costs may all be relevant – particularly for institutional investors. The Commission should therefore articulate whether, and under what circumstances, broker-dealers may appropriately prioritise these factors over obtaining the best displayed price.

Absent such guidance, market participants may face uncertainty regarding the Commission's expectations, particularly where a routing decision results in an execution at a price inferior to the national best bid or offer but delivers other benefits to the investor. As the Commission moves away from the prescriptive framework embodied in Rule 611, it should consider whether further best execution guidance is necessary to provide regulatory certainty and support consistent investor protection across the market.

Locked Markets

The Commission should proceed with its proposal to eliminate the prohibition on locked markets. In a market structure no longer governed by the Trade-Through Rule, restrictions on locked quotations are increasingly difficult to justify and risk impeding the competitive price formation process. Allowing market participants to post the most aggressive prices they are willing to trade at would promote tighter spreads, enhance displayed liquidity, and improve execution outcomes for investors.

Locked markets are a natural consequence of competition among trading venues and liquidity providers. When multiple market participants seek to offer the best available price simultaneously, quotations will at times converge. Preventing this outcome artificially constrains the displayed market and can result in wider quoted spreads than would otherwise exist. By contrast, allowing locked markets enables displayed prices to fully reflect competitive supply and demand, strengthening price discovery and reinforcing the informational value of displayed quotations.

The case for prohibiting locked markets was closely tied to the broader Regulation NMS framework, including concerns about quote interaction, trade-through protections, and operational complexities that were more significant when the rules were adopted. The Commission's proposal to rescind Rule 611 appropriately recognises that market structure has evolved considerably. As market participants assume greater responsibility for routing decisions and evaluating execution quality, restrictions designed to support a mandatory trade-through regime become less necessary.

Eliminating the locked market prohibition would also reduce unnecessary operational complexity. Today, exchanges and market participants devote substantial resources to monitoring, repricing, and rerouting orders solely to avoid locked market conditions. Numerous order types and exchange mechanisms exist primarily to comply with these restrictions. Removing the prohibition would allow prices to adjust naturally, reducing message traffic, minimising unnecessary order modifications, and simplifying trading workflows without compromising investor protection.

The proposal would also help address concerns regarding displayed liquidity and exchange competitiveness. By preventing locked markets, the current framework can create artificial gaps between the best displayed bid and offer. Those gaps may provide opportunities for off-exchange venues to execute orders within the spread rather than contributing liquidity to the public market. Allowing locked markets would narrow or eliminate these artificial spreads, increasing the competitiveness of displayed markets and strengthening the role of exchanges in the price discovery process.

Concerns that investors may be confused by locked market conditions are considerably less compelling today than when Regulation NMS was adopted. Modern trading systems routinely process highly dynamic quotations across multiple venues, and market participants are accustomed to rapidly changing market conditions. There is little evidence that permitting locked quotations would materially impair market quality or resilience. Instead, allowing quotations to compete freely is likely to produce tighter pricing and more efficient markets.

The benefits could be particularly significant in securities and asset classes where competition among liquidity providers is intense and spreads are already narrow. Even modest reductions in effective spreads can generate meaningful savings for investors when applied across the volume of trading in U.S. equity and options markets. More fundamentally, market participants should not be prevented from displaying the prices at which they are genuinely willing to trade simply because those prices may temporarily lock another venue's quotation.

For these reasons, the Commission's proposal to rescind the prohibition on locked markets is a logical complement to the proposed elimination of Rule 611. Both reforms would allow competitive market forces to play a greater role in determining prices and execution outcomes, reduce unnecessary complexity, and promote a more efficient and transparent price formation process. As the Commission reconsiders the Regulation NMS framework, it should view these reforms as mutually reinforcing steps towards a more flexible and market-driven structure.

About the World Federation of Exchanges (WFE):

Established in 1961, the WFE is the global industry association for exchanges and clearing houses. Headquartered in London, it represents the providers of over 250 pieces of market infrastructure, including standalone CCPs that are not part of exchange groups. Of our members, 39% are in Asia Pacific, 42% in EMEA and 19% in the Americas region. The WFE's 74 member CCPs and clearing services collectively ensure that risk takers post some USD 1.4 trillion (equivalent) of resources to back their positions, in the form of initial margin and default fund requirements. WFE exchanges are home to over 41,000 listed companies, and the market capitalization of these entities is over $137 trillion; around $198.5 trillion in trading annually passes through WFE members (at end-2025).

The WFE is the definitive source for exchange-traded statistics and publishes over 350 market data indicators. Its free statistics database stretches back 50 years and provides information and insight into developments on global exchanges. The WFE works with standard-setters, policy makers, regulators and government organisations around the world to support and promote the development of fair, transparent, stable and efficient markets. The WFE shares regulatory authorities' goals of ensuring the safety and soundness of the global financial system.

With extensive experience of developing and enforcing high standards of conduct, the WFE and its members support an orderly, secure, fair and transparent environment for investors; for companies that raise capital; and for all who deal with financial risk. We seek outcomes that maximise the common good, consumer confidence and economic growth. And we engage with policymakers and regulators in an open, collaborative way, reflecting the central, public role that exchanges and CCPs play in a globally integrated financial system. If you have any further questions, or wish to follow-up on our contribution, the WFE remains at your disposal.

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