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Subcommittee on Capital Markets Hearing:

“From Order to Execution: Ensuring Efficient and Transparent Equity Markets”

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Thank you, Chairman Wagner and Ranking Member Sherman. On behalf of Nasdaq, I appreciate the opportunity to testify today. Before we begin, I want to commend Chairman Atkins and the Commission for their continued focus on ensuring that U.S. markets remain competitive, transparent, and resilient. Under his leadership, the Commission has continually demonstrated a willingness to engage thoughtfully with market participants to foster innovation while maintaining strong investor protections.

The United States has the deepest, most liquid equity markets in the world. That did not happen by accident. It is largely because of, not despite, a regulatory framework that has evolved over time, supported innovation, and balanced competition with issuer and investor protection.

Today, as this Subcommittee examines equity market structure - from order handling to execution - it is important to anchor this discussion in what is working well, while also evaluating where improvements may be warranted. I want to emphasize a few core principles:

1. Displayed, transparent markets, like exchanges, will always be essential to investor confidence and price discovery. Market reform should recognize that value and encourage the continuation of displayed markets.
2. At the same time, exchanges need to be able to compete more effectively with dark, non-transparent off-exchange venues, which have gained in popularity to capture, on average, roughly half of all trading volume in U.S. equities on any given trading day. Unlike exchanges, these dark markets have regulatory flexibility to curate customer experiences in terms of execution quality and price. Exchanges need more leeway from the SEC to provide similar experiences.
3. Although U.S. market structure is imperfect, it is still an optimized, well-functioning, mature, complex, and delicate system that reflects substantial investments in technology and resources. Any reform, no matter how small or well-intended, needs to be considered very carefully before undertaking it and with an eye towards systemic effects and unintended consequences. In the current environment, even deregulatory acts are themselves market interventions - the clock cannot simply be unwound to undo what has been done without consequence. Every intervention - regulatory or deregulatory - will create a new equilibrium with new winners and losers.
4. Technology is rapidly changing the way that the U.S. capital markets operate. Whereas traditionally, equity markets were distinct from other types of markets, and the SEC regulated them as such, the advent of digital assets and hybrid instruments, like swaps, are blurring lines and forcing us to reevaluate how markets can and

should operate. Increasingly, we need to adapt to a world in which a single market can trade all types of assets, all the time, and do so seamlessly and efficiently. We need to ensure that any new market structure we adopt for purposes of governing these new markets facilitates efficiency and innovation without compromising the foundational strengths of existing market structure - deep and interconnected pools of liquidity, transparent and efficient price discovery, and of course, robust investor protections.

5. Modernization should be data driven, incremental where possible, and focused on positive outcomes for investors and public companies.

The Role of Displayed Markets and the NBBO

At the center of our equity market structure is the National Best Bid and Offer, or NBBO. The NBBO is not just a regulatory construct - it is the benchmark price upon which investors, brokers, and market participants measure value and execution quality.

The U.S. has highly liquid markets that support investment savings, capital formation, and more broadly the economic success of the country. Displayed quotes on lit exchanges are foundational to the NBBO and the success of our markets. Off-exchange dark markets, while serving a legitimate and important need in today's ecosystem, leverage displayed quotes as a reference for their own non-displayed prices, but dark markets do not contribute to displayed pricing.

For that reason, policies that weaken incentives to display liquidity degrade the benchmark (i.e., NBBO) that investors use to assess execution quality. A strong NBBO benefits everyone: retail investors, institutional investors, issuers, and brokers alike. It lowers transaction costs, narrows spreads, and supports the confidence and trust that investors have in market outcomes.

As markets evolve, preserving the integrity and usefulness of the NBBO should remain a foundational objective.

Market Fragmentation and Complexity

The equity market today is undeniably complex. Trading occurs across many venues - lit exchanges, alternative trading systems (ATSs), single-dealer platforms, and internalized execution.

Some degree of fragmentation reflects healthy competition, but fragmentation can also introduce cost, complexity, and opacity if not managed carefully.

Importantly, complexity is not inherently reduced by eliminating a single rule. In fact, because many market structure rules are deeply interconnected, changing one can introduce new risks and increase complexity unless related rules are reviewed and updated at the same time.

That is why it is essential that policymakers consider how rules interact, rather than assessing them in isolation from one another.

Consider Reform Effects on the Entire Trading and Capital Formation Environment

Several aspects of current equity market regulation work together as a system, including:

- Order protection and quote accessibility
- Access fees and Minimum Price Increments
- Best execution and execution quality disclosures

If policymakers revisit one element of that framework, it is critical that they consider the others alongside it.

It is no secret that the SEC is evaluating changes to the Order Protection Rule (OPR). That rule has been in place for 20 years, and evaluation at this time is justified. As the SEC embarks on a process to decide whether to pare back or eliminate SEC Rule 611, we hope that it will also consider taking concurrent action to bolster lit trading and incentives to encourage liquid, transparent, lit markets. Liquidity providers communicate important information to the market when they step up to set the displayed best bid or best offer. Liquidity takers enjoy the benefit of this free option on lit pricing. Revising or eliminating OPR will have its impacts, and the SEC needs to recognize that. Exchanges will need incentives to ensure a robust public marketplace can function to serve the entire investing ecosystem.

A comprehensive approach to reform reduces the risk of unintended consequences and helps ensure reforms actually improve how markets function for investors.

Responsible Innovation

As noted above, technology is redefining the capital markets, how they operate, and how they fit together. As we speak today, Congress continues to grapple with these transformational issues. We appreciate the robust debate and careful deliberation, which are warranted in this case, given the profound implications for the future of U.S. markets and their leadership as the preeminent source of capital and wealth creation in the world.

As a technological disruptor in its own right, Nasdaq welcomes innovation as the hallmark of a thriving market. However, as a steward of the markets and of the investors they serve, we are also concerned about ensuring that innovation occurs in a responsible manner. Innovation should not be pursued as an end unto itself, regardless of any corresponding costs or risks it presents.

To that end, concepts like regulatory sandboxes present important opportunities to experiment with innovations in a controlled environment. However, we must be careful to ensure that even in sandboxes, participation is broad and transparent, participants are subject to monitoring, and investor risks are controlled. Any regulatory relief that the sandbox affords should be necessary and temporary – with any permanent relief occurring through notice and comment rulemaking. Importantly in this context, sandboxes should not provide a means by which new entrants, motivated by a desire to gain competitive advantages, can shirk the securities laws or operate outside of the national market system, placing investors and the markets at risk.

Competition - Establishing a Level Playing Field

U.S. markets are highly competitive, with exchanges, ATSS, wholesalers, and other execution venues all vying fiercely for order flow. However, such competition is not free and fair.

Exchanges operate under a different and often more constrained regulatory framework than do off-exchange venues. That imbalance can influence where liquidity forms and how orders are routed.

If the policy goal is to promote competition based on quality, transparency, and execution - not regulatory arbitrage - then exchanges should have sufficient flexibility to innovate responsibly while maintaining their public market obligations.

Well-designed flexibility can help encourage liquidity to remain visible, accessible, and resilient during periods of stress - when investors need it most.

Market Quality Drives Positive Outcomes for Investors and Issuers

Ultimately, market structure discussions should center on a fundamental question: are markets delivering strong outcomes for investors and issuers?

Market quality is best assessed from multiple, connected, perspectives. Best execution is one important lens, but it should sit alongside other key indicators - tight and stable spreads, meaningful depth of liquidity, and high-quality, reliable execution outcomes. Together, these factors provide a more complete view of how effectively markets are functioning.

To support this, clear and consistent rules - and transparent, comparable data - are critical. They enable investors to assess how their orders are handled and ensure firms can be held accountable for the quality they deliver.

As market structure continues to evolve, the way we measure and evaluate market quality must evolve with it - while preserving transparency and maintaining strong investor protections.

Conclusion

The U.S. equity markets provide many benefits to issuers and investors. They finance growth, support retirement savings, and attract global capital.

Thoughtful modernization is both appropriate and necessary. But it should be measured, coordinated, sequenced, and grounded in evidence, to ensure that changes ultimately benefit public companies and investors, rather than introducing new issues.

I appreciate the Subcommittee's focus on these issues and its commitment to understanding how policy choices affect real-world market outcomes. Nasdaq continues to support collaborative work with the Commission and Congress to support incremental reforms that preserve the dominance and leadership of U.S. markets.

Thank you for the opportunity to testify. I look forward to your questions.