

Testimony of Securities and Exchange Commission Director of the Division of Trading and Markets Haoxiang Zhu Before the United States House of Representatives Committee on Financial Services, Subcommittee on Capital Markets

June 22, 2023

Good morning, Chairman Wagner, ranking member Sherman, and members of the subcommittee:

My name is Haoxiang Zhu, the Director of the Division of Trading and Markets at the Securities and Exchange Commission. It is my honor and pleasure to appear in front of you today to discuss the Division's work. I am testifying in my official capacity as the Director of the Division of Trading and Markets, but my testimony does not necessarily reflect the views of the Commission, the Commissioners, or other members of the staff.

The Division of Trading and Markets

The Division of Trading and Markets was one of the original divisions of the SEC when it was established in 1934. Back then, it was known as the Division of Trading and Exchange. As the name implies, the primary task of the Division is to oversee the trading of securities. As technology and market practices evolve, the role of the Division evolves with it. Today, there are, broadly speaking, three layers of market activities and intermediaries that come under the remit of the Division.

The first layer is marketplaces. This broad category includes national securities exchanges, as well as alternative trading systems and security-based swap execution facilities. Generally, if a marketplace trades any security—stocks, bonds, options, security-based swaps, among others—it is in the remit of Trading and Markets.

The second layer is broker-dealers.¹ Because broker-dealers are key intermediaries for investors to access the market, they are subject to rigorous regulatory requirements about net capital, customer protection, recordkeeping, sales practices, and investment recommendations, among other activities.

The third and last layer is clearing agencies, including clearinghouses and central securities depositories. They are important for the efficient clearance and settlement of securities transactions. The Division also oversees transfer agents, which maintain the issuer's security holder records, among other functions.

I should add that exchanges, FINRA, and clearing agencies are all self-regulatory organizations (SROs). Securities laws require that SROs file their proposed rules and rule changes with the Commission, and the filings are subject to Commission review and notice and comment.

Based on the most recent data, the Division of Trading and Markets oversees 24 national securities exchanges, about 100 alternative trading systems, over 3500 broker-dealers, 48 security-based swap dealers, 7 registered clearing agencies, and over 300 transfer agents. In fiscal year 2022, the Division processed about 2000 filings from SROs, including exchanges, FINRA, and clearing agencies. Behind

¹ This category includes all types of broker dealers, including "government securities brokers", "government securities dealers", and "security-based swap dealers," among others. But I refer to all of them as broker-dealers for simplicity.

these numbers are the approximately 270 staff members in the Division who spend countless hours reviewing documents, writing Commission releases and orders, and meeting with registrants and market participants.

Updating Our Rules for Evolving Markets and Technology

Our day-to-day regulatory work produces another dividend, which is that Division staff identify market evolutions that are significant enough to warrant updates to our rulebooks. Of course, if Congress decides to update securities laws, we implement Congressional mandates. Under Chair Gensler, over 60% of rule proposals and adoptions recommended by the Division of Trading and Markets received unanimous votes from the Commission. Our current rulemaking work falls into four broad areas.

The first area is to finish the mandates from the Dodd-Frank Act of 2010. Two weeks ago, the Commission voted to adopt two sets of Dodd-Frank rules about antifraud in securities-based swaps market and the removal of reference to credit ratings in Regulation M. We are currently evaluating comments received on four other Dodd-Frank Act proposals: reporting of securities loans, reporting of short positions, reporting of large security-based swap positions, and rules relating to security-based swap execution facilities.

The second area focuses on strengthening the U.S. Treasuries market in all three layers I discussed: marketplaces, broker-dealers, and clearing agencies. The Commission has proposed to scope in trading platforms for government securities under Regulation ATS and Regulation SCI. The Commission also proposed to further define “dealer” and “government securities dealer” so that intermediaries that act like dealers in the Treasuries market would comply with Federal securities laws and rules. Another proposal would require broker-dealers to register with FINRA, with narrow exceptions. Finally, the Commission proposed to expand central clearing of Treasury securities transactions and Treasury repo transactions, while enhancing standards of risk management of Treasury clearing agencies and facilitating customer access to clearing. Two additional proposals would strengthen the governance structure and the recovery and winddown planning of clearing agencies.

The third area is to update our rules on equity market structure. The proposed updates to Rule 605 would require broker-dealers to disclose execution quality publicly. Other proposed updates to Regulation NMS would narrow the minimum trading and quoting increment for certain liquid stocks, reduce access fees on exchanges, and adjust round lot definition and odd lot information. The proposed order competition rule aims at enhancing competition for the handling of marketable orders from individual investors. Finally, proposed Regulation Best Execution—which applies to all securities—would create the first SEC-established rule concerning best execution.

The fourth area focuses on the interaction between financial regulation and technology infrastructure. The Commission has already adopted two rules in this space regarding the recordkeeping requirements of broker-dealers and the transition to one-day settlement cycle, or T+1. The Commission has proposed rules regarding customer notifications about data breaches, cybersecurity enhancements for broker-dealers, and heightened standards for Regulation SCI. The Commission also proposed a rule to require electronic filings or submission of certain forms and other information.

In all areas of rulemakings, the staff in the Division thoroughly consider comment letters received and actively engage with market participants before making policy recommendations for the Commission to

consider. We closely collaborate with colleagues in the Division of Economic and Risk Analysis, the Office of General Counsel, and other divisions and offices. We are working hard to fulfill the mission: protect investors; promote fair, orderly, and efficient markets; and facilitate capital formation.

Conclusion

I'd like to conclude with a personal note. 16 years ago, I set foot in this great country to pursue a better life. I'm grateful that the United States took me in as one of its 330 million proud citizens. I had a good career as a financial economist before coming to public service. It's been my honor and privilege to serve at the Commission for the past 18 months. Our work is deeply technical, but underneath it is a far simpler and more profound goal: to keep the U.S. capital markets—and indeed the United States—as the envy of the world.