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On
Oversight of America's Stock Exchanges: Examining Their Role in Our Economy
Subcommittee on Investor Protection, Entrepreneurship and Capital Markets
Committee on Financial Services
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Good afternoon, Chairman Sherman, Ranking Member Huizenga and Members of the Subcommittee. The World Federation of Exchanges – or 'WFE' – is grateful to the Sub-Committee for the opportunity to engage in a discussion about the way that the modern exchange business is run.

The WFE is the global trade association for regulated exchanges and clearing houses, formed (actually quite a long time ago) in 1961. Since that beginning, our membership has included the major US stock exchanges that this subcommittee will be very familiar with, and now also encompasses their counterparts all around the world. All 300 of the pieces of 'market infrastructure' they run are highly regulated businesses.

As a preliminary point, I'd like to note that exchanges work hard to ensure robust infrastructure, including cybersecurity and operational resilience more generally. They demonstrated this extensively through one of the most testing times for financial markets, during the pandemic of the past two years – a period when broker dealers by contrast very clearly faced operational difficulties.

In all cases, WFE member exchanges fulfill a function that we see as critical to capital markets: price formation. Without clear, unbiased, authoritative and up-to-the-minute information about the ever changing value of financial assets, markets would quite simply struggle to serve society. This is why it is one key criterion of membership of the WFE that an exchange perform such a role, ensuring a properly structured setting for establishing the consensus price of financial assets at any given moment.

At the same time, the modern exchange has to be a dynamic and competitive business, constantly investing in new capacity in order to meet the ever increasing demands of investors; of issuers of securities; and of financial-services companies globally. The exchange therefore performs a valuable role, from which financial-service intermediaries benefit particularly greatly; and which has broader public benefits, serving the businesses that need capital to grow; and the investors whose savings can be put to work.

So, our members have many things in common but the deeper, more fundamental shared characteristic is that they are the core of the capital markets in their respective jurisdictions. Supporting fair and transparent trading is their purpose – and, in my view, an essential component of public trust in the financial system.

Our members recognise that this central role has always come with significant responsibility, and will continue to do so. There are many ways in which this responsibility manifests itself, including setting the rules for who can participate and how; ensuring surveillance of the trading process; and overseeing everything from listing requirements to trading halts to stock splits. These functions relating to the operation and oversight of their markets are highly regulated and complex and are all conducted in furtherance of fair and orderly markets and investor protection.

I want to stress that the exchange creates the marketplace and the flow of price information but does not participate in it. In other words, the great strength of the exchange model is that they act as an impartial facilitator of business, ensuring that transactions can take place in a safe and efficient manner, while staying at arm's length from the back and forth that characterizes the typical trading day.

This is a very important distinction and – just as importantly – it applies whatever the ownership or governance structure of the exchange. The very nature of the exchange role is to be a trusted third party that must fulfill considerable statutory obligations every single day. The US securities exchanges are not only highly regulated but incredibly transparent. All rules and charges are filed with the SEC and publicly available – something that cannot be said for many other entities in the capital markets.

I started by talking about the exchange business being modern in outlook but it is built on long-established principles – much longer than the WFE's own history. It is the blend of these well established principles and state-of-the-art operations that makes exchanges so effective, for the full range of market participants, including everyday investors as well as Wall Street.

In summary, exchanges take their role and responsibilities seriously, because that is what makes them effective and valuable.

Thank you.