VIRTU FINANCIAL

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Roundtable on Equity Market Structure

Testimony of Douglas A. Cifu, Chief Executive Officer, Virtu Financial, at a roundtable discussion hosted by U.S. Representative Scott Garrett.

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I am Douglas Cifu, Chief Executive Officer of Virtu Financial ("Virtu"). Virtu is a leading technology-enabled market maker and liquidity provider to the global financial markets. We stand ready, at any time, to buy or sell a broad range of securities and other financial instruments. We make markets by providing quotations to buyers and sellers in more than 10,000 securities and other financial instruments on more than 210 unique exchanges, markets and liquidity pools in 31 countries around the world. By applying technology and automation to the provisioning of continuous two-sided quotes in the electronic markets in which Virtu participates, we believe that we have played an important role in narrowing bid/offer spreads and transaction costs for investors globally.

We believe that market makers like Virtu serve an important role in maintaining and improving the overall health and efficiency of the global capital markets by continuously posting bids and offers for securities and other financial instruments and thereby providing to market participants an efficient means to transfer risk. All market participants benefit from the increased liquidity, lower overall trading costs and enhanced execution certainty that we provide. The Company's market making activity spans across multiple assets classes, including cash equities, fixed income, currencies, futures, options, energy products, metals and other commodities. Virtu, through its many subsidiaries, is directly registered as broker dealer or investment firm and operates as a registered market maker on most primary markets around the globe. Obviously, Virtu believes in the benefits of market making and is committed to providing continuous obligated liquidity in the markets we serve. In sum we have taken an important and time-honored financial intermediary function and through the application of technology, innovation and automation make it more efficient and globally scaleable.

In discussing the state of the US equity market, I start from the premise that our equity markets are the most dynamic and efficient market in the world. As a market participant in many of the world markets and across asset classes, we can say with confidence that the US equity market is the most liquid and robust pricing mechanism on the planet. No market can compare to the US equity market in terms of pricing efficiency, price competition and liquidity. Companies listed on our US equity markets enjoy the most efficient and liquid market which result in higher returns for their investors. Our post-trade settlement and clearing systems also rival any marketplace in the world in terms of their cost and effectiveness.

That said, our market is not perfect. It has flaws and unnecessary complexity. The US equity market is overly fragmented and, likely, over engineered. Stocks in the US trade electronically on 11 national securities exchanges and over 40 dark pools. Our market structure thoughts fall into three categories of concern: (1) "One Size Fits All" is a flawed structure; (2) almost 10 years of Federal price setting has left us with the unintended consequences; and (3) liquidity is by appointment and not by design.

Recently, Securities and Exchange Commission ("SEC") Chair, Mary Jo White, proposed an exhaustive list of market structure reform priorities for the SEC. We applaud Chair White and support her efforts on each of the SEC's regulatory priorities. We believe that there are a number of critical enhancements to the US regulatory framework that can provide some of the needed protections and ensure continued investor confidence in our marketplace. While we support the SEC's broad market structure priorities, we believe it is important to express our specific support for certain proposals that fit within the broader SEC list of priorities.

We believe the following proposals to enhance the US equity markets should be considered or implemented by the SEC:

- End the "One-Size-Fits-All" equities market structure for the 5,000+ companies listed in the US; Adopt the SEC's proposed Tick Pilot as a first step;
- Launch a broad review of Regulation NMS with a specific focus on a review of the 2005 Access Fee Cap, including the many unintended consequences of this $.30 per hundred shares traded cap, and the consideration of a meaningful reduction of the cap.
- We urge the creation of a category of market participants that would be called "National Market System Market Makers" ("NMS Market Makers") that would undertake specific market making obligations that require among other things, best price, minimum size requirements, depth of liquidity, a minimum size basket of stocks for which they serve as market makers and enhanced capital requirements;
- Consider eliminating or privatizing the Consolidated Quotation System;

First, our market is currently designed as a "One-Size-Fits-All" market. What I mean by this is that most of our major market *structure rules do not distinguish between the size or market capitalization of the listed company or the trading characteristic of its stock. Our markets are designed to execute all stocks, regardless of shape or size, using the same market mechanism. As the list of public companies continues to grow, a more diverse number of public companies trade on our market always subject to the same market structure. A stock that trades once per day is traded in the same market structure as a stock that trades many millions of times per day. Our market is solely designed for Cisco, Microsoft and Bank of America and not for a stock that trades by appointment. I believe that much of the frustration from institutional investors has been not in their ability to buy or sell the Dow 30 but in buying and selling Russell 3000 components that may trade only tens of thousands of shares per day. I believe the SEC's proposed Tick Pilot should be adopted but it should be the first step in moving our market away from One Size Fits All.*

Second, we believe the SEC should launch a broad review of Regulation NMS. Regulation NMS was passed in 2005. Since 2005, we have not analyzed or specifically studied the success of Regulation NMS. A broad review would look at the original goals of Regulation NMS and whether the regulation achieved its specific goals. In particular, we should review the price set by the SEC in the context of the cap on access fees established under Rule 610 of Regulation NMS. We believe that the fee setting established by the SEC in 2005 has contributed to the growth of dark pools and off-exchange trading as agency brokers and "price sensitive" routers will search for liquidity on cheaper exchanges or ATSs prior to removing liquidity on a more "full priced" exchange. The fee of $0.0030 that was determined in 2005 has not been revisited and currently contributes to the high cost of accessing displayed liquidity. We believe the SEC should consider substantially lowering the cap on access fees established under Rule 610.

My third area of focus is on our markets failure to enhance market making obligations. In order to ensure the continued confidence of the investing public in our capital markets, we believe that the SEC should adopt a federal standard for NMS Market Makers. A NMS Market Maker would be required to provide market making services, or “true liquidity”, across a broad basket of stocks and not just in an individual stock as is the case currently with registered exchange market makers. A NMS Market Maker would be recognized under SEC rules and be subject to SEC approved market making obligations. While our firm is a market maker and it is easier for me to call for enhanced market making obligations, we fundamentally believe that we need to increase obligated liquidity in our markets. However, we believe market maker obligations are most needed in our less liquid securities. And so, we believe the SEC should consider adopting a new form of market makers called NMS Market Makers. We believe that NMS Market Makers should have obligations across large cap, mid-cap and small cap stocks. Those obligations should require the following:

1. Best Price Obligation - NMS Market Makers must publish continuous, two-sided quotations “at or near the best price” during regular market hours for a specified percentage of the time during a trading day;

2. Minimum Size - NMS Market Makers must publish two-sided quotations at a specified minimum size (e.g., 1,000 shares) based on the price and ADV of the stock;

3. Depth Obligations - NMS Market Makers must provide quotations 3 to 5 levels below the Best Price Obligation at a specified minimum size;

4. Basket Obligation - NMS Market Makers must meet these market making standards in a minimum number of NMS securities (300) with one third from each of the following categories: small cap, mid-cap and large cap stocks;

5. Capital Requirements - NMS Market Makers must maintain higher capital requirements than other broker dealers based on their quoting obligations in addition to their existing position-based capital requirements;

Finally, we believe the SEC should consider eliminating or privatizing the Consolidated Quotation System Since. Since its Congressional inception in 1975, the consolidated quotation system and the consolidated last sale system has served a critical transparency need: ensuring that investors have access to accurate and reliable price and volume information. Today, quotation and trade information is still collected by an industry utility and distributed to thousands of users. There are numerous commercial consolidators in the market as well. The technical act of consolidating large quantities of data from multiple sources causes some measure of latency that is physically unavoidable. In a 2010 Concept Release, the SEC concluded “that trading center data feeds do not need to go through the extra step of consolidation at a plan processor, however, that means such data feeds can reach end-users faster than the consolidated data feeds.” This inherent and inevitable speed differential has resulted in significant misinformation about our equity markets but equally as unsettling, mistrust of our markets.

Over the years, third party trading systems, broker algorithms and even online retail brokers have converted to utilizing the exchange direct feeds. Many of these market participants have converted to the direct feeds because of the depth of book information that is only available on the direct feeds. The current distribution of the direct feeds touches the vast majority of orders generated from retail and institutional investors. Given their current broad distribution, direct exchange feeds are not “private feeds” as they are freely and publicly available to all market participants and should be considered the official feed for regulatory purposes.

Because of the current distribution and prevalence of the direct exchange feeds, it is time to consider the elimination or privatization of the consolidated quotation system. This industry utility, owned and operated by the exchanges, has not evolved with the sophistication of the commercially developed market for quote consolidation. The consolidated quote system has *outlived its market need and now creates an appearance of an unlevel playing field.*

Thank you again for the opportunity to be here today to speak on this subject. I would be pleased to answer any questions.