FIA PTG
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The Brazilian Securities and Exchange Commission
Rua Sete de Setembro, 111, 23º andar
Rio de Janeiro, 20050-901

Via e-mail

Re: Public Hearing Notice SDM No. 9/19

The FIA Principal Traders Group ("FIA PTG")[1] appreciates the opportunity to comment on Public Hearing Notice SDM No. 9/19 (the "Notice"). Members of FIA PTG account for a substantial percentage of the trading volume in Brazil, as well as on many of the other leading financial markets in the world. Our deep experience trading at scale on leading financial markets gives us unique insights regarding how market structure impacts investors.

We welcome the efforts by the Brazilian Securities and Exchange Commission ("CVM") to improve the structure and efficiency of the Brazilian financial markets. This comment letter addresses three aspects of the Notice: 1. self-regulatory organization ("SRO") authority over investors with direct market access ("DMA investors"); 2. best execution obligations; and 3. block trading rules.

1. Scope of SRO Authority

Draft B of the Notice provides for self-regulation of the organized markets through one or more SROs. Among other responsibilities, Draft B provides that the "The self-regulatory entity shall supervise [i]nvestors and other participants that have direct access to organized markets or, as the case may be, to the respective financial market infrastructures, by means of contractual arrangements in that sense."

Direct market access ("DMA") by investors using computer technology has dramatically reduced transaction costs and dramatically improved market quality in almost every financial market in the world. It is thus critically important that market regulatory structures efficiently and effectively regulate the trading activity of DMA investors, along with the trading activity of all other market participants. We submit that the following key principles should guide the design of that regulatory framework:

- SRO rules should be designed to ensure that members of the SROs take steps to control and monitor the trading activity of all investors, including DMA investors. For example, each SRO should require SRO member firms to appropriately control and monitor trading activity by customers to whom the member firm provides market access (including both direct and indirect access). This should include, for example, establishment of minimum market access risk controls that must be deployed either by the exchange or broker providing market access.

[1] FIA PTG is an association of firms, many of whom are broker-dealers, who trade their own capital on exchanges in futures, options and equities markets worldwide. FIA PTG members engage in manual, automated and hybrid methods of trading, and they are active in a wide variety of asset classes, including equities, fixed income, foreign exchange and commodities. FIA PTG member firms serve as a critical source of liquidity, allowing those who use the markets, including individual investors, to manage their risks and invest effectively. The presence of competitive professional traders contributing to price discovery and the provision of liquidity is a hallmark of well-functioning markets.

- It is well accepted in global financial markets, however, that an SRO should only regulate members of the SRO. Indeed, the term "self-regulation" derives from the fact that market participants who become members of an SRO organization are, through the SRO, regulating themselves.

  For example, SROs should not have the authority to directly regulate the customers of brokerage firms if those customers are not also members of the SRO or members of an exchange that has engaged the SRO to provide regulatory services to the exchange. This includes customers that obtain direct market access through brokerage firms. If a customer of such a brokerage firm engages in problematic trading activities, the SRO should scrutinize member firm compliance with market access control requirements or, if appropriate, report the problematic activity to CVM.

2. Best Execution Obligations

Draft C of the Notice describes proposed best execution requirements. We fully support CVM's proposal to allocate best execution responsibilities to brokers. We further support the proposal to require brokers to diligently seek the best available outcome under the circumstances considering a wide variety of factors. In our experience, a flexible approach to best execution generally works better than a one-size-fits-all price test that may not be well-suited for all market participants.

In this regard, it is critically important that professional customers and other institutional market participants that are trading their own capital should have ultimate control over when and how their orders are executed. For example, a best execution rule should not require a broker or exchange to second guess the selection of which market to route an order to when a professional customer directs that the order be sent to a particular market. CVM should ensure that its best execution rules are consistent with this fundamental principle.

3. Block Trading

Draft A of the Notice proposes a new framework to govern block trades of securities. Among other provisions, Draft A proposes that block trades may be executed either pursuant to special trading procedures governing exchange trading or in the over-the-counter ("OTC") markets.

We agree that an efficient market can include mechanisms that permit the execution of block trades OTC, but only if all block transactions are publicly reported immediately after execution. Without this transparency, market confidence, market efficiency, and the accuracy of market pricing erodes quickly and substantially. Block trades can have significant market impact, and market transparency thus requires that all market participants learn of the terms of block transactions immediately after they are executed.

We further believe that market rules should permit block trades to be executed both where a single broker handles both sides, or where two brokers are involved in negotiating the trade, and one broker reports the trade on behalf of both brokers.

Draft A also wisely requires that block trades be "single, round and indivisible lots" subject to reasonable minimum size or notional thresholds. We would add that the minimum size and notional thresholds should be set so as to ensure that only a limited portion of overall trading activity would qualify as a block.

Finally, we submit that if a security is admitted for trading on an exchange and can be cleared through the Central Counterparty ("CCP"), block trades should also be required to clear via that same CCP.

We again appreciate the opportunity to provide these comments. If you have any questions or if we can provide further information, please contact Joanna Mallers (jmallers@fia.org).

Respectfully,

FIA Principal Traders Group

Joanna Mallers
Secretary