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Thank you Chairman Shapiro and members of the Commission for the opportunity to participate in this discussion.

I am pleased to represent The Vanguard Group in today's roundtable discussion. Our clients are individual and institutional investors, including families saving for retirement and college, retirees, employee benefit plans and others. Two of the core beliefs shared by Vanguard and its clients are that investment plans should focus on long-term financial goals and that minimizing the costs of investing is crucial for long-term success. My comments today are based on those beliefs and what we perceive to be in the best interest of long-term investors.

Quite simply, long-term investors have benefited from the changes in our market structure over the past 10 to 15 years. While today's market structure may not be the optimal structure if one could write on a clean slate, it is significantly better for all investors than the market structure of the 1980's and 1990's. The competition in the marketplace that was facilitated by Reg NMS, the order handling rules, decimalization and improved technology over the past decade has resulted in a significant decrease in transaction costs for all investors. Over the long term, any reduction in transaction costs has a significant impact on investor returns. As set forth in more detail in Vanguard's recent comment letter on market structure, reduced transaction costs have enabled a mutual fund investor to reasonably expect an investment balance than is perhaps 30% higher than what they could have expected only a decade ago.

We think that much of the recent controversy surrounding “high frequency traders” and “dark pools” reflects a general lack of understanding of the benefits that such participants bring to the markets. Although Vanguard does not engage in “high frequency trading” and does not operate a “dark pool” we do buy and sell millions of dollars of securities every day on behalf of our fund shareholders. We strive to execute those trades at the lowest possible cost. Based on decades of experience, it is our belief that high frequency trading and dark pools contribute to a more efficient market that benefits all investors. Generally speaking, high frequency traders provide liquidity and “knit” together our increasingly fragmented marketplace resulting in tighter spreads that benefit all investors. We believe that a vast majority of “high frequency trading” is legitimate and adds value to the marketplace. Dark pools also benefit retail investors by providing a venue for institutional traders, including Vanguard, to trade large blocks of stock with minimal market impact and distortion of prices. Accordingly, we do not support any broad-based restrictions on these types of activity.

This being said, flaws in our current market structure exist. The events of May 6th make this abundantly clear. While our markets function extremely efficiently almost all of the time, the twenty-minute window of trading on May 6th demonstrates that there is a significant structural flaw. I would like to discuss two general concepts that we believe the Commission should consider as it continues to analyze today’s equity market structure, including the events of May 6th. Those concepts are limit orders and circuit breakers.

First, limit orders. Displayed limit orders are the building blocks of transparent price discovery. From a regulatory perspective, the Commission should consider rules and regulations that incent market participants to enter and display their limit orders. Over the years there has been much discussion about facilitating competition among market centers, which Vanguard supports. Nevertheless, the focus on competition among market centers has overshadowed the true goal of our market structure, which is to facilitate the competition of orders. This is what leads to transparent price discovery and, ultimately, the fairest prices for investors. While our current equity market structure facilitates competition among market centers, it does little to encourage competition of orders. I would like to discuss three things that we think the Commission could consider in this regard: 1) "depth-of-book" protection; 2) a "trade-at" rule; and 3) investor education.

With respect to "depth-of-book" protection, we believe protecting quotes at multiple price levels encourages the display of limit orders and, frankly, we struggle with the reasoning for providing only "top-of-book" protection.

Another way to encourage use of displayed limit orders would be to adopt what is known as a "trade-at" rule, which would require a trading center that is not displaying the NBBO price at the time it receives a marketable order to route the order to the full displayed size of the NBBO quote unless the trading center is willing to improve the NBBO price. Today, a market center can execute such an order at the NBBO without actually contributing to the public price discovery process. A trade-at rule could go a long way towards developing a deeper displayed market which would lead to enhanced liquidity and more transparent price discovery.

If a trade-at rule and/or depth-of-book protection were implemented, at least traders would need to consider publicly displaying their trading interest. Today, there is hardly any reason for a trader to do so. The current structure thus impedes transparent price discovery. A trade-at rule and depth-of book protection, by contrast, would increase competition of orders and promote transparent price discovery. That said, any reform proposal will need to be fully vetted through public comment so that all pros and cons can be analyzed, including implementation costs and competitive issues.

Although I cannot tell you that a trade-at rule or depth-of-book protection would have prevented what occurred on May 6th, a market with more displayed liquidity may have reacted differently.

May 6th also demonstrated a need to educate investors about the potential risks of placing market orders, including stop-loss orders. It appears that retail investors with stop-loss orders experienced the worst of May 6th. We believe the Commission and the industry can do more to educate investors about the potential risks of market and stop-loss orders and the commensurate benefits of limit orders.

Nevertheless, one way to ameliorate the potential risks of market and stop-loss orders is through the imposition of circuit breakers, and I would like to devote the remainder of my remarks to that subject.

We commend the industry and the Commission for its swift responses to the events of May 6th through the release of the proposed single stock circuit breaker rules, which Vanguard supports. I admit that historically I have not favored circuit breakers as I felt they interfered with the natural interaction of orders and the price discovery process. Nevertheless, we must recognize the behavioral reaction of investors in times of stress. While I have already discussed how technology and high frequency trading have benefitted all investors through lowered transaction costs, May 6th showed that there are some flaws in this increasingly automated structure – especially when the liquidity that normally exists is substantially impaired or, as on May 6th, vanishes. In these rare situations, we think it is appropriate to have a structure that takes a "time-out" and gives market participants the opportunity to reset.

For this reason, we support single stock circuit breaker halts. We believe that such halts are a much better way to deal with extreme volatility than the so called "clearly erroneous trade rules." In fact, we think a system that relies on cancelling trades actually discourages liquidity at times when it is needed most. As prices decline significantly, professional traders that would normally provide liquidity will not do so if they believe trades will be cancelled. A structure that allows the markets to pause and regroup is much better than a structure that cancels trades after the fact.

We think it is crucial that ETFs be included in the circuit breaker rules at the outset. Retail investors in ETFs, including Vanguard ETFs, experienced the drastic effects of the market volatility of May 6th and there is no reason to treat ETFS differently from other listed securities. Importantly, ETFs were affected, as were stocks, because of a flaw in the market structure, not the ETF product. Circuit breakers limited to individual stocks will not protect ETF investors. We hope that the Commission will expand the circuit breakers to include ETFs and stocks outside the S&P 500. Including ETFs in circuit breakers and educating investors around the use of market and stop-loss orders will also help to protect retail investors.

In sum, our current market structure benefits long term investors more than ever before. While there are flaws, those flaws can be addressed with some adjustments; sweeping reforms are not required and likely would have far more negative consequences than benefits. Vanguard recommends adjustments that encourage the competition of orders, increase transparency and improve investor education. We look forward to working with the Commission on this important effort. Thank you again for providing me the opportunity to participate in this discussion.