

MEMO# 31417

October 1, 2018

ICI Submits Second Comment Letter in Response to SEC's Proposed Transaction Fee Pilot

[31417]

October 1, 2018 TO: ICI Members

ICI Global Members SUBJECTS: Trading and Markets RE: ICI Submits Second Comment Letter in Response to SEC's Proposed Transaction Fee Pilot

ICI recently filed the attached comment letter, its second in response to the Securities Exchange Commission's (SEC's) proposal to conduct a pilot program to study the effects that transaction-based fees and rebates in national market system (NMS) stocks may have on order routing behavior, execution quality, and market quality generally. [\[*\]](#) Our letter responds to comments arguing that the proposed pilot program: (1) is unnecessary or redundant with other SEC rulemaking efforts; (2) will harm investors; or (3) could disadvantage listed companies by making shares of companies that are included in one of the pilot's test groups less attractive investments than the shares of companies in the control group.

Our letter reiterates ICI's support for the proposed pilot program and urges the Commission to adopt the proposal, with certain changes, as soon as possible. The attached letter includes three parts.

- In part I we explain that the proposed transaction fee pilot is not duplicative of SEC rulemaking efforts aimed at increasing transparency of alternative trading system operations and broker-dealer order handling practices. The proposed pilot complements these disclosure rulemakings.
- Part II of the letter explains that the pilot will benefit investors, not harm them. This section explains that commenters asserting that the proposed pilot would harm investors miss the mark by focusing on the potential for the pilot program to increase transaction costs while overlooking the potential for the pilot to improve other market quality metrics.
- Part III argues that the proposed pilot should not cause common stocks of operating companies in test groups to become less attractive investments than control group issuers because market structure is not a significant factor in the investment decisions of portfolio managers.

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Assistant General Counsel

[Attachment](#)

endnotes

[*] *Transaction Fee Pilot for NMS Stocks*, Securities Exchange Act Release No. 82873 (March 14, 2018), 83 FR 13008 (March 26, 2018). See ICI [Memorandum No. 31135](#), dated March 16, 2018, for background and a detailed summary of the proposal. We filed our first letter on the proposal on May 23. See Letter from Susan M. Olson, General Counsel, ICI, to Brent J. Fields, Secretary, Commission, dated May 23, 2018, *available at* <https://www.ici.org/pdf/31218a.pdf>.

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