

MEMO# 31218

May 23, 2018

ICI Submits Comment Letter on SEC's Proposed Transaction Fee Pilot for NMS Stocks

[31218]

May 23, 2018 TO: ICI Members

ICI Global Members SUBJECTS: Trading and Markets RE: ICI Submits Comment Letter on SEC's Proposed Transaction Fee Pilot for NMS Stocks

ICI submitted the attached comment letter in response to an SEC proposal for 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.[\[1\]](#) The data generated by the proposed pilot program would facilitate an evaluation of the need for regulatory action in this area.

The comment letter strongly supports the proposed pilot program and urges the Commission to adopt the proposal, with minor changes, and commence the pilot as soon as possible. The letter includes three parts.

Part I explains the importance of studying how exchange transaction pricing affects market quality. This part argues that transaction-based fees and rebates may affect the way that brokers handle customer orders, decrease market transparency, and increase market complexity to the detriment of investors.

Part II supports the design of the proposed pilot program and aims to counter arguments that other market participants have advanced opposing a transaction fee pilot program.

Part III offers suggestions to streamline the implementation of the pilot program and improve the analysis of data gathered by the pilot program.

- First, we urge the Commission to implement the pilot program in a way that minimizes the potential for competitive distortions in the exchange-traded product market. Specifically, we suggest that the Commission rotate pilot securities through each of the test groups and the control group to mitigate potential competitive distortions that could result from the pilot.
- Second, we urge the Commission to provide additional details about the metrics it intends to use to assess market quality before, during, and after the pilot.
- Third, we urge the Commission to adopt a rule compelling broker-dealers to provide

institutional investors with granular order handling information. Institutional investors could use this information to analyze changes in the execution quality of their orders and, more broadly, market quality during the pilot period.

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[Attachment](#)

endnotes

[1] *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.

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