

MEMO# 29691

February 3, 2016

Draft ICI Comment Letter to SEC on Proposed Rules for the Regulation of NMS Stock Alternative Trading Systems; Member Feedback Requested by Thursday, February 11

[29691]

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TO: EQUITY MARKETS ADVISORY COMMITTEE No. 4-16
ETF (EXCHANGE-TRADED FUNDS) COMMITTEE No. 4-16
ETF ADVISORY COMMITTEE No. 4-16
FIXED-INCOME ADVISORY COMMITTEE No. 4-16
SEC RULES COMMITTEE No. 5-16
SECURITIES OPERATIONS ADVISORY COMMITTEE RE: DRAFT ICI COMMENT LETTER TO SEC
ON PROPOSED RULES FOR THE REGULATION OF NMS STOCK ALTERNATIVE TRADING
SYSTEMS; MEMBER FEEDBACK REQUESTED BY THURSDAY, FEBRUARY 11

In November, the Securities and Exchange Commission (“SEC” or “Commission”) proposed rules to amend the regulatory requirements applicable to alternative trading systems (“ATs”). [1] The proposed amendments would apply primarily to ATs that offer trading in stocks listed on a national securities exchange (“NMS Stock ATs”). [2] The proposal aims to provide investors, other market participants, and the Commission more information about the operation of NMS Stock ATs. The proposal would require each of these trading systems to make detailed public disclosures on newly-proposed Form ATS-N about its operation and the activities of its broker-dealer operator and its affiliates.

ICI’s draft comment letter on the proposal is attached for your review. If you have any comments on the draft letter, please send them to George Gilbert at george.gilbert@ici.org or (202) 326-5810 by close of business on February 11.

The draft letter supports the Commission’s proposal to require all NMS Stock ATs to make standardized and comprehensive disclosures on new Form ATS-N. Part I of the letter explains the challenges that funds currently face when evaluating ATs and expresses our strong support for the Commission’s proposal to make public Form ATS-N filings. Part II explains how funds would benefit from the proposed disclosures regarding the relationship

between an NMS Stock ATS and the broker-dealer that operates the ATS and its affiliates. In this section, we recommend several ways that the Commission could tailor these disclosures to provide more useful information to market participants. Part III focuses on proposed requirements for an NMS Stock ATS to disclose information about its operations, which would greatly improve funds' access to critical information about these trading venues. Part IV lays out our views on other aspects of the proposal, including the scope of the ATSs covered by the proposal. We also urge the Commission, following implementation of the ATS reforms detailed in the proposal, to monitor for broker-dealers shifting their order routing practices away from ATSs in favor of internalization, which would dilute the proposal's goal to increase equity market transparency.

The draft letter contains several questions – in bold and italicized – regarding proposed positions in the letter and the arguments supporting those positions. We would very much appreciate feedback on these questions.

Jennifer S. Choi
Associate General Counsel

George M. Gilbert
Counsel

[Attachment](#)

endnotes

[1] ICI Memorandum 29521, available at https://www.ici.org/my_ici/memorandum/memo29521 (December 3, 2015)

[2] Regulation of NMS Stock Alternative Trading Systems, Securities Exchange Act Release No. 76474 (November 18, 2015), available at <http://www.sec.gov/rules/proposed/2015/34-76474.pdf>.