

MEMO# 29733

February 26, 2016

ICI Comment Letter to SEC on Proposed Rules for the Regulation of NMS Stock Alternative Trading Systems

[29733]

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TO: EQUITY MARKETS ADVISORY COMMITTEE No. 5-16
ETF (EXCHANGE-TRADED FUNDS) COMMITTEE No. 5-16
ETF ADVISORY COMMITTEE No. 5-16
FIXED-INCOME ADVISORY COMMITTEE No. 5-16
SEC RULES COMMITTEE No. 7-16
SECURITIES OPERATIONS ADVISORY COMMITTEE RE: ICI COMMENT LETTER TO SEC ON
PROPOSED RULES FOR THE REGULATION OF NMS STOCK ALTERNATIVE TRADING SYSTEMS

ICI recently submitted a comment letter in response to a proposal by the Securities and Exchange Commission (“Commission”) to amend the regulatory requirements applicable to alternative trading systems (“ATSs”). As previously reported, the proposed amendments would apply primarily to ATSs that offer trading in stocks listed on a national securities exchange (“NMS Stock ATSs”). [\[1\]](#) The proposal aims to provide investors, other market participants, and the Commission with more information about the operation of NMS Stock ATSs. 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 comment letter supports the Commission’s proposal to require all NMS Stock ATSs to make standardized and comprehensive disclosures on new Form ATS-N. The letter includes four parts.

- Part I of our letter describes the challenges that funds currently face when evaluating ATSs and expresses our support for the Commission’s proposal to make more information about these trading venues available to funds and other market participants. This section explains that although NMS Stock ATSs provide many benefits to funds and now play an important role in the equity markets, the difficulty associated with obtaining information about these trading venues complicates fund efforts to optimize their routing strategies.
- Part II supports the proposed disclosures in Form ATS-N that would allow investors to

assess the conflicts of interest that arise as a result of the relationship between an NMS Stock ATS and the broker-dealer that operates the ATS and its affiliates. In this section, we recommend several modest modifications to the proposal that would tailor these disclosures to provide more meaningful information to market participants.

- Part III supports the proposed disclosures in Form ATS-N that relate to the operations of an NMS Stock ATS. We believe these disclosures would greatly improve funds' access to critical information about these trading venues and suggest four enhancements to the proposal to increase the utility of these disclosures to funds.
- Part IV lays out our views on other aspects of the proposal and encourages the Commission to do more to increase transparency in the equity markets. We encourage the Commission to make public Form ATS filings for all ATSs. In addition, we urge the Commission, following implementation of the ATS reforms, to monitor whether broker-dealers are shifting their order routing practices away from ATSs in favor of internalization to avoid the enhanced Regulation ATS disclosure regime.

Jennifer S. Choi
Associate General Counsel

George M. Gilbert
Counsel

[Attachment](#)

endnotes

[1] ICI Memorandum No. 29691, available at https://www.ici.org/my_ici/memorandum/memo29691.