

MEMO# 30223

September 8, 2016

Draft ICI Comment Letter to SEC on Proposed Rules to Improve Disclosure of Institutional Order Handling Information; Member Comments Requested by September 15

[30223]

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TO: EQUITY MARKETS ADVISORY COMMITTEE No. 32-16
SEC RULES COMMITTEE No. 41-16 RE: DRAFT ICI COMMENT LETTER TO SEC ON PROPOSED RULES TO IMPROVE DISCLOSURE OF INSTITUTIONAL ORDER HANDLING INFORMATION;
MEMBER COMMENTS REQUESTED BY SEPTEMBER 15

The Securities and Exchange Commission (“SEC” or “Commission”) recently proposed rules that for the first time would require broker-dealers to disclose certain information about their handling of institutional orders. [1] This proposal addresses an ICI-led initiative to improve the ability of institutional investors—including funds and their managers—to evaluate broker-dealer routing of institutional orders. [2]

The proposal would provide funds and other investors with order handling information in two ways. First, it would provide a specific institutional investor with more than 20 discrete pieces of information about the routing and execution of its “institutional orders” for a period of up to six months. [3] In an effort to allow institutional investors to determine how routing strategies perform at different trading centers, the proposal would require broker-dealers to categorize the data elements required by the rule according to the trading center and order routing strategy used. Second, the proposal would require broker-dealers to make public reports describing their handling of institutional order on an aggregated basis.

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 by close of business on September 15.

Our letter address four aspects of the proposal. First, we explain how the proposal will benefit funds and their shareholders by providing institutional investors with greater insights into broker-dealer order handling practices. Second, we recommend that the

Commission expand the definition of “institutional order” to encompass all orders submitted by institutional investors, instead of those for at least \$200,000. Third, we request that the Commission modify the organization of the proposed order handling disclosures to require broker-dealers to classify their order routing strategies using objective criteria, rather than predictions of how an algorithm will behave. Fourth, we suggest certain refinements to the proposal that would improve the usability of reported data for funds and other institutional investors.

The draft letter contains several questions—in bold and brackets—regarding proposed positions in the letter and the arguments supporting those positions. We would very much appreciate feedback on these questions. In some cases—noted in the letter—if we do not receive feedback in response to a question, we intend to remove the argument associated with the question from the letter.

Jennifer S. Choi
Associate General Counsel

George M. Gilbert
Counsel

[Attachment](#)

endnotes

[1] Disclosure of Order Handling Information, Securities Exchange Act Release No. 78309 (Jul. 13, 2016), available at <https://www.sec.gov/rules/proposed/2016/34-78309.pdf>.

[2] See ICI Memorandum No. 30052 (Jul. 19, 2006), available at https://www.ici.org/my_ici/memorandum/memo30052.

[3] An “institutional order” would be an order to buy or sell an NMS stock that is not for the account of a broker or dealer and is an order for a quantity of an NMS stock having a market value of at least \$200,000.