

MEMO# 31392

September 19, 2018

Draft ICI Comment Letter on Proposed Transaction Fee Pilot for NMS Stocks; Member Comments Requested by September 26

[31392]

September 19, 2018 TO: Closed-End Investment Company Committee
Equity Markets Advisory Committee
ETF (Exchange-Traded Funds) Committee
ETF Advisory Committee RE: Draft ICI Comment Letter on Proposed Transaction Fee Pilot for NMS Stocks; Member Comments Requested by September 26

In March, the SEC proposed 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] ICI submitted a comment letter supporting the proposal, with modest modifications, in May.^[2]

The SEC received dozens of letters opposing the proposed pilot program during the summer. In broad terms, these letters argue 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

ICI has prepared the attached draft comment letter to respond to these arguments. If you have comments on the draft letter, please send them to George Gilbert at george.gilbert@ici.org **by close of business on September 26.**

The draft letter reiterates ICI's support for the proposed pilot program and urges the Commission to adopt the proposal, with the changes we recommended in our May letter as soon as possible. The draft letter includes three parts.

- In part I we explain that the proposed transaction fee pilot complements other Commission rulemakings efforts because it will provide data that the Commission can use to evaluate equity market quality.
- 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.

George M. Gilbert
Assistant General Counsel

[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.

[2] 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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