

MEMO# 35228

March 31, 2023

ICI Files Comment Letter to SEC on Tick Size and Access Fee Cap Reduction Proposal

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TO: Equity Markets Advisory Committee
ETF (Exchange-Traded Funds) Committee
SEC Rules Committee

Security Valuation Operations Committee SUBJECTS: Trading and Markets RE: ICI Files
Comment Letter to SEC on Tick Size and Access Fee Cap Reduction Proposal

ICI has filed the attached comment letter with the SEC on the Tick Size and Access Fee Reduction proposal ("Proposal"). The letter addresses the proposed amendments to Regulation NMS, which would establish variable minimum pricing increments for both the quoting and trading of NMS stocks, reduce the current access fee cap, and accelerate the implementation of previously adopted equity market data reforms. The Proposal is one of four related equity market structure proposals that the Commission issued last December; earlier today, ICI submitted a separate comment letter on two of those proposals (Regulation Best Execution and Order Competition Rule).

ICI's letter cautions the SEC against trying to adopt all of the changes within the Proposal simultaneously or within a short time frame, given that the changes are interrelated and may have significant negative impacts on the markets. The letter urges an incremental approach instead, starting first with disseminating the new round lot sizes and odd lot information through NMS core data before pursuing any other changes.

With respect to changes to the quoting tick increment, the letter:

- opposes multiple new sub-penny quoting tick increments, in particular \$0.001 and \$0.002, without further analysis and supporting data and recommends a more limited approach at this time—only a \$0.005 (half-penny) increment that only applies to stocks that are "tick-constrained," with additional metrics to apply in addition to time-weighted average quoted spread in determining whether a stock is "tick-constrained";
- supports determining a stock's quoting tick increment on a quarterly basis; and
- recommends further examining a potential widening of the current \$0.01 tick increment for certain stocks where appropriate.

With respect to the access fee cap under Rule 610, the letter

- supports a reduction in the \$0.003 cap that corresponds to a reduction to the \$0.01 quoting tick increment, while noting that ICI members have a diversity of views and specifying that it is not recommending a specific reduction;
- encourages the SEC to continue analyzing the effect of rebates funded by exchange access fees, and based on that analysis, to consider whether the cap should be further reduced and applied more broadly to more stocks to address such effects; and
- expresses support for the proposed requirement that exchange fees or rebates (or other forms of remuneration) be known at the time of execution of an order.

Finally, ICI's letter supports the Commission's proposed exceptions from its minimum trading increments. These exceptions would apply to midpoint trades and benchmark trades.

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