

## COMMENT LETTER

October 23, 2014

# ICI, MFA, and SIFMA Submit Order Routing and Execution Quality Disclosure Template to SEC (pdf)

October 23, 2014 Chair Mary Jo White U.S. Securities and Exchange Commission 100 F Street, NE Washington, DC 20549 Re: Customer-Specific Order Routing Disclosures for Institutional Investors Dear Chair White: The Investment Company Institute (ICI),<sup>1</sup> Managed Funds Association (MFA),<sup>2</sup> and the Securities Industry and Financial Markets Association (SIFMA)<sup>3</sup> (together, the “Associations”) are writing to support efforts to improve the transparency of the equity markets. Specifically, we have prepared an order routing disclosure template for the minimum disclosure of order routing and execution quality information that institutional investors could request from their broker-dealers. We hope that the template (attached as Annex A) will inform any potential rulemaking by the Securities and Exchange Commission (“SEC” or “Commission”) staff as it prepares a recommendation for a rule.

<sup>1</sup> The Investment Company Institute is the national association of U.S. investment companies, including mutual funds, closed-end funds, exchange-traded funds (ETFs), and unit investment trusts (UITs). ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. Members of ICI manage total assets of \$17.2 trillion and serve over 90 million shareholders.

<sup>2</sup> Managed Funds Association represents the global alternative investment industry and its investors by advocating for sound industry practices and public policies that foster efficient, transparent, and fair capital markets. MFA, based in Washington, DC, is an advocacy, education and communications organization established to enable hedge fund and managed futures firms in the alternative investment industry to participate in public policy discourse, share best practices and learn from peers, and communicate the industry’s contributions to the global economy. MFA members help pension plans, university endowments, charitable organizations, qualified individuals and other institutional investors to diversify their investments, manage risk and generate attractive returns. MFA has cultivated a global membership and actively engages with regulators and policy makers in Asia, Europe, North and South America, and many other regions where MFA members are market participants.

<sup>3</sup> The Securities Industry and Financial Markets Association brings together the shared interests of hundreds of securities firms, banks and asset managers. SIFMA’s mission is to support a strong financial industry, investor opportunity, capital formation, job creation and economic growth, while building trust and confidence in the financial markets. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit [www.sifma.org](http://www.sifma.org).

Chair Mary Jo White October 23, 2014 Page 2 of 4 that would require, upon institutional investor

request, disclosure of useful, reliable, and uniformly available customer-specific order routing information.<sup>4</sup> Currently, institutional investors receive a range of information from their broker-dealers regarding how their equity market orders are routed, the potential conflicts of interest broker-dealers face, and the execution quality provided by the different broker-dealers and trading venues. Institutional investors have access to publically-available order routing and execution quality statistics pursuant to Rules 605 and 606 of Regulation NMS as well as through ad hoc reports that broker-dealers prepare in response to individual requests. Those reports, however, do not provide information to measure broker-dealers' and execution venues' performance with respect to specific institutional investors. In addition, those reports are not presented in a uniform manner that allows for easy comparison across different broker-dealers and venues. To address buy-side interest in enhancing the level of transparency around equity market structure in general and execution quality in particular, including through better disclosure of statistical data regarding order routing and execution, ICI organized a transparency initiative industry working group. To achieve broad industry consensus, the working group included representatives of investment managers, broker-dealers, exchanges and other trade associations—including MFA and SIFMA.<sup>5</sup> The working group was tasked with developing, among other things, a standardized disclosure template that each broker would provide to its clients. The disclosure would provide a broad range of statistical data regarding the broker's handling of a specific customer's orders, along with the execution quality achieved by the broker at each execution venue. The working group has produced this template for the minimum disclosure of order routing and execution quality information, which would be provided by broker-dealers at regular intervals. The Associations believe that receipt of the information in the template would provide institutional investor clients of broker-dealers, including funds and their managers, with standardized information about their broker-dealers' order routing practices and execution quality. The standardized information would provide institutional investor clients with data for further analysis and comparison and would help institutional investors begin a dialogue with their broker-dealers about order routing practices and the management of conflicts of interest. We also note that in the continuously evolving and innovating markets, different types of information may become more relevant or useful over time. In this regard, we encourage the Commission to make any regulations in this area flexible so that information disclosures that become obsolete can be readily replaced with disclosures that become relevant.

<sup>4</sup> See Mary Jo White, Chair, Securities and Exchange Commission, Enhancing Our Equity Market Structure (June 5, 2014) available at <http://www.sec.gov/News/Speech/Detail/Speech/1370542004312>.

<sup>5</sup> Several members of the Commission's staff also were invited to the working group's meetings as observers. Chair Mary Jo White October 23, 2014 Page 3 of 4 This template has been endorsed by each Association as the product of collaboration among a broad segment of industry participants. The Associations believe that increased, uniform transparency will assist institutional investors with determining execution quality and increase overall investor confidence in the equity markets. We hope that this template will be of assistance to the Commission's staff as it prepares recommendations for rulemaking in this area. We would be pleased to discuss the template with you, your fellow commissioners, or the Commission's staff at the Commission's convenience. If you have any questions or need further information, please do not hesitate to contact the undersigned or Jennifer Choi of ICI, at (202) 326-5876, Jennifer Han of MFA, at (202) 730-2600, or T. R. Lazo of SIFMA at (202) 962-7383. Sincerely, /s/ Dorothy M. Donohue Deputy General Counsel Investment Company Institute /s/ Stuart J. Kaswell Executive Vice President & Managing Director, General Counsel Managed Funds Association /s/ Randy Snook Executive Vice President Securities Industry and Financial Markets Association Enclosure Chair Mary Jo White October 23, 2014 Page 4 of 4 cc: Luis A. Aguilar, Commissioner Daniel M. Gallagher, Commissioner

Kara M. Stein, Commissioner Michael S. Piwowar, Commissioner Stephen Luparello,  
 Director, Division of Trading and Markets David S. Shillman, Associate Director, Division of  
 Trading and Markets Gregg E. Berman, Associate Director, Division of Trading and Markets  
 Theodore Venuti, Senior Special Counsel, Division of Trading and Markets Annex A Venue  
 Total Shares Routed to Venue by Broker Number of Total Shares Routed as Actionable IOIs  
 Total Shares Executed by Broker Fill Rate (Shares Executed / Shares Routed) Total Shares  
 Further Routable Total IOC Shares Duration of Orders Posted Shares Providing Liquidity  
 Liquidity Provided % of Total Executed Provide / Rebate Fee (mils) Shares Taking Liquidity  
 Liquidity Taker % of Total Executed Take Rebate / Fee (mils) Overall Execution Fee / Rebate  
 (mils) Average Order Size Routed By Broker (Shares) Average Fill Size (Shares) Shares  
 Executed at Midpoint Midpoint Execution % Shares Executed at Near Side of Spread Near  
 Side Execution % Shares Executed at Far Side of Spread Far Side Execution % Shares  
 Executed as Principal [Exchange A] (Total) ---[Exchange A] - IS-P ---[Exchange A] - IS-M ---  
 [Exchange A] - IS-A ---[Exchange A] - Directed [Dark Pool B] (Total) ---[Dark Pool B] - IS-P ---  
 [Dark Pool B] - IS-M ---[Dark Pool B] - IS-A ---[Dark Pool B] - Directed [ECN C] (Total) ---[ECN  
 C] - IS-P ---[ECN C] - IS-M ---[ECN C] - IS-A ---[ECN C] - Directed [ELP D] (Total) ---[ELP D] - IS-  
 P ---[ELP D] - IS-M ---[ELP D] - IS-A ---[ELP D] - Directed [Other Venue E] (Total) ---[Other  
 Venue E] - IS-P ---[Other Venue E] - IS-M ---[Other Venue E] - IS-A ---[Other Venue E] -  
 Directed Totals Execution Venue Analysis (By Venue) - [Broker Name Here] Venue Total  
 Shares Routed to Venue by Broker Number of Total Shares Routed as Actionable IOIs Total  
 Shares Executed by Broker Fill Rate (Shares Executed / Shares Routed) Total Shares Further  
 Routable Total IOC Shares Duration of Orders Posted Shares Providing Liquidity Liquidity  
 Provided % of Total Executed Provide / Rebate Fee (mils) Shares Taking Liquidity Liquidity  
 Taker % of Total Executed Take Rebate / Fee (mils) Overall Execution Fee / Rebate (mils)  
 Average Order Size Routed By Broker (Shares) Average Fill Size (Shares) Shares Executed  
 at Midpoint Midpoint Execution % Shares Executed at Near Side of Spread Near Side  
 Execution % Shares Executed at Far Side of Spread Far Side Execution % Shares Executed  
 as Principal IS-P (Total) ---IS-P - [Exchange A] ---IS-P - [Dark Pool B] ---IS-P - [ECN C] ---IS-P -  
 [ELP D] ---IS-P - [Other Venue E] IS-M (Total) ---IS-M - [Exchange A] ---IS-M - [Dark Pool B] ---  
 IS-M - [ECN C] ---IS-M - [ELP D] ---IS-M - [Other Venue E] IS-A (Total) ---IS-A - [Exchange A] ---  
 IS-A - [Dark Pool B] ---IS-A - [ECN C] ---IS-A - [ELP D] ---IS-A - [Other Venue E] Directed  
 (Total) ---Directed - [Exchange A] ---Directed - [Dark Pool B] ---Directed - [ECN C] ---Directed  
 - [ELP D] ---Directed - [Other Venue E] Totals Execution Venue Analysis (By Algo) - [Broker  
 Name Here] Broker Routing Venue Analysis Template Definitions Total Shares Routed to  
 Venue by Broker – The total number of shares that were part of orders routed to the  
 particular venue by the broker, whether or not those orders resulted in executions at that  
 venue. For purposes of this spreadsheet, “orders” include actionable indications of interest  
 (i.e., those indications of interest that can be immediately executed against) (“Actionable  
 IOIs”). Number of Total Shares Routed as Actionable IOIs – Of the total shares routed to the  
 venue, the number of shares that were routed as Actionable IOIs rather than traditional  
 quotes or orders. Total Shares Executed by Broker – The total number of shares that were  
 part of orders routed to the venue that resulted in executions at the venue. Fill Rate  
 (Shares Executed / Shares Routed) – The percent of shares routed to the venue by the  
 broker that resulted in executions at that venue. Total Shares Further Routable – The total  
 number of shares that the broker routed to the venue that were marked as able to be  
 further routed by the venue to another venue for execution. Total IOC Shares – The total  
 number of shares that the broker routed to the venue that were marked as immediate or  
 cancel (i.e., not further routable and not posted). Duration of Orders Posted – The average  
 length of time (measured in milliseconds) that orders (other than IOCs) were posted to a  
 venue before being filled or cancelled. Shares Providing Liquidity – The number of shares  
 executed at the venue that were not immediately executable when routed to the venue,

such that they added to the order book, rather than immediately executed against resting orders (e.g., limit orders with limit prices away from the market price). Liquidity Provided % of Total Executed – Provides percentages of shares executed at the venue that provided liquidity, as compared to the total number of shares executed at the venue. Provide / Rebate Fee (mils) – The average rebate or fee for providing liquidity on the particular venue that actually applied to the particular broker (in light of all volume tiers) at the time the shares were traded on behalf of the customer (measured in cents per 100 shares). Note that many venues provide “maker” rebates for shares executed that provided liquidity while “inverted” pricing structure venues charge “maker” fees for share executed that provided liquidity. 2 Shares Taking Liquidity – The number of shares executed at the venue that were immediately executable when routed to the venue, such that they executed against and removed orders resting on the venue’s order book (e.g., market orders). Liquidity Taker % of Total Executed – Provides percentages of shares executed at the venue that removed liquidity as compared to the total number of shares executed at the venue. Take Rebate / Fee (mils) – The average rebate or fee for taking liquidity from the particular venue that actually applied to the particular broker (in light of all volume tiers) at the time the shares were traded on behalf of the customer (measured in cents per 100 shares). Note that many venues charge “taker” fees for shares executed that removed liquidity while “inverted” pricing structure venues provide “taker” rebates for shares executed that removed liquidity. Overall Execution Fee / Rebate (mils) – The all-in execution fee plus or minus applicable fees and rebates that were charged or paid by the venue (measured in cents per 100 shares). Average Order Size Routed by Broker (Shares) – The average size, by number of shares, of each order routed to the venue by the broker. Average Fill Size (Shares) – The average size, by number of shares, of each order actually executed on the venue. Shares Executed at Midpoint – The aggregate number of shares executed at the venue that were priced at or near the mid-point between the bid and the offer. Midpoint Execution % – The percentage of total shares executed that were executed at or near the midpoint between the bid and the offer. Shares Executed at Near Side of Spread – The aggregate number of shares executed at the venue that were priced on the side of the spread more favorable to the customer (i.e. if purchasing, executed closer to the bid). Near Side Execution % – The percentage of total shares executed that were executed at or near the near side of the spread. Shares Executed at Far Side of Spread – The aggregate number of shares executed at the venue that were priced on the side of the spread less favorable to the customer (i.e. if purchasing, executed closer to the offer). Far Side Execution % – The percentage of total shares executed that were executed at or near the far side of the spread. Shares Executed as Principal – To the extent knowable for the particular venue, the number of shares that the broker executed against the customer as principal for its own account.