CFA Institute

915 East High Street
Charlottesville, VA
22902-4868 USA

+1 (434) 951 5499 tel
+1 (434) 951 5262 fax
info@cfainstitute.org
www.cfainstitute.org

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Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Transaction Fee Pilot for NMS Stocks

Dear Mr. Fields:

CFA Institute[1] appreciates the opportunity to comment on the U.S. Securities and Exchange Commission's ("SEC" or the "Commission") proposed rule, "Transaction Fee Pilot for NMS Stocks" (the "Pilot"). CFA Institute represents the views of those investment professionals who are its members before standard setters, regulatory authorities, and legislative bodies worldwide about issues affecting the practice of financial analysis and investment management, education and licensing requirements for investment professionals, and on issues affecting the efficiency, integrity and accountability of global financial markets.

Executive Summary

We support ensuring that broker-dealers are adhering to their best execution obligations in the routing of client orders to competing venues within the structure of U.S. equity markets. To that end, we support the idea of launching this Pilot to study the effect transaction fees, rebates and other inducements (jointly referred to as "Inducements") have on broker-dealer routing decisions.

While we agree with many of the technical aspects of the Pilot's structure, we believe the Pilot, as proposed, is not broad enough to capture the full effect Inducements have on equity markets. Supplemental to the transaction fees and rebates provided in maker-taker and taker-maker markets, the Pilot should include alternative trading systems ("ATSs") and payments for order flow used by retail over-the-counter market makers ("Retail OTC MMs")[2] to attract retail trades

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[1] CFA Institute is a global, not-for-profit professional association of more than 159,000 investment analysts, advisers, portfolio managers, and other investment professionals in 166 countries, of whom more than 150,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 151 member societies in 70 countries and territories.

[2] This is the term used to describe non-ATS over-the-counter market-makers in, "OTC Trading: Description of Non-ATS OTC Trading in National Market System Stocks," by Laura Tuttle, SEC Division of Economic Research and Analysis. March 2014. See: https://www.sec.gov/marketstructure/research/otc_trading_march_2014.pdf.

from other brokers. We believe these should be included to ensure the Pilot considers the effects of all types of inducements, particularly as they relate to order flow for small-cap stocks. Without these inputs, we believe the Pilot will not only produce an incomplete dataset, but also will lead to faulty conclusions about how inducements affect order-routing and trading decisions.

We also propose the Pilot rotate stocks between the different Test Groups during the course of the Pilot. The purpose of rotation would be to ensure that each stock spends the same amount of time in each of the different Test Groups and experiencing the effects of restrictions on all types of inducements over the course of the Pilot. For example, each stock would spend 8 months in Test Group 1 where higher fees would be permitted; 8 months in Test Group 2 with more modest fees permitted; and 8 months in Test Group 3, where fees and rebates are prohibited.

This, we believe, would reduce the negative effects that might accrue to one group of stocks that must spend the entire Pilot phase within one type of Test Group which restricts or permits one type of inducement. This would likewise limit the negative effects of the Pilot that trading venues would endure. Finally, a rotation would create events on the dates when rotations occur that will enable researchers to examine changes with a "differences-in-differences" approach.

Beyond this, we support the Pilot's structure, though we question whether the Test Groups need to be so large. We also support the proposed time frame, sunset provisions for conducting the tests, and transparency obligations for relevant trading venues.

Background

CFA Institute and its members support rules that ensure equity markets are fair and transparent, and that provide a level and competitive market for all types of market participants. Our members engage in the breadth of US and global investment markets[3], and therefore rely heavily on market structures that possess these qualities.

Based on execution speed, pricing spreads, trading costs and share liquidity, Regulation of the National Market System ("Reg NMS") has been a resounding success. The speeds at which investors can execute trades in the most liquid securities has been cut significantly from a decade ago, and at prices that more closely reflect values displayed in the market. Likewise, the cost at which investors can trade is a fraction of a decade earlier.

Nevertheless, the Reg NMS structure has increased complexity in the marketplace. This has made it difficult for most retail investors, and many institutional investors, to understand the functioning of U.S. equity markets and how they can achieve the best possible result. This confusion has the effect of undermining investor confidence.

Inducements Creating Complexity and Conflicts

[3] Of nearly 50,000 U.S. members of CFA Institute, more than 16,500 work with buy-side firms as chief investment officers, portfolio managers, investment strategists and analysts, and managers of investment managers; nearly 10,000 work with sell-side firms as brokers, investment banking analysts, and institutional salespeople; nearly 1,200 as traders; with the remainder working as risk managers, accountants, corporate financial officers, senior executives, regulators, and attorneys, among other roles.

Significant in the complexity of Reg NMS are the Inducements that trading markets offer to influence market participants' — broker-dealer, proprietary traders and institutional investors — order-routing decisions. Inducements generate revenue for the venues through increased trading fees that come with greater market share. At the same time, however, they undermine the pricing standards established in Rule 612 of Reg NMS[4], which prohibits all market participants from displaying, ranking or accepting bids, offers, orders or indications of interest for NMS stocks priced above $1.00[5] in increments smaller than one penny (the minimum price variance or "MPV"). They also exacerbate the conflicts of interest broker-dealers face when deciding where to send client orders. All of which worsens investor confidence.

Without regulatory encouragement, brokers are unlikely to send client orders[6] to trading venues where they must pay for execution, even when doing so would provide the best representation of standing customer limit orders. It is this conflict that is the essence of the agency problems associated with the current market structure.

While the Inducements the Pilot proposes to consider — which we believe should include payment-for-order flow — create conflicts of interest for broker-dealers, broker-dealers will succumb to such conflicts only if they believe they can ignore their best-execution obligations on client orders. For this reason, we urge the SEC and the self-regulatory organizations ("SROs") to whom the Commission delegates such authority, to vigorously enhance enforcement of broker-dealers' best-execution requirements, regardless of the outcomes of the Pilot.

SEC Studies on Internalization Activities

Two dated SEC studies highlight our reasons for calling for inclusion in the Pilot of ATSs and Retail OTC MMs' internalization activities, together with the payments market makers use to obtain that order flow. The 2010 Concept Release on Equity Market Structure[7] (the "2010 Concept Release"), for one, suggests broker-dealer internalization accounted for 17.5% of overall share volume in NMS stocks in late 2009. The release also noted a review of Rule 606 routing disclosures from "eight broker-dealers with significant retail customer accounts" which showed that "nearly 100% of their customer market orders are routed to OTC market makers."[8]

A more recent study[9] (the "2014 Study") by Laura Tuttle in the Commission's Division of Economic Research and Analysis, corroborates the 2010 Concept Release estimate, stating that about 17% of dollar volume and 19% of share volume of NMS stocks were executed over the

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[4] 17 CFR 242.612

[5] For stocks priced below $1 per share, the minimum increments are $0.0001. The rule also give the SEC authority to exempt any participant, security, quote or order if it is deemed to be in the public interest and to protect investors.

[6] As noted above, the Commission estimates that all or nearly all retail order flow is routed to Retail over-the-counter market makers' internal crossing networks. Consequently, the orders they are routing are likely institutional orders.

[7] https://www.sec.gov/rules/concept/2010/34-61358.pdf. Figure 6 estimates overall broker-dealer internalization market share at 17.5% of total share volume in NMS stocks as of September 2009.

[8] P. 21.

[9] "OTC Trading: Description of Non-ATS OTC Trading in National Market System Stocks," by Laura Tuttle, Division of Economic Research and Analysis, March 2014. See "Table 4: Cross-Sectional Summary for OTC Non-ATS Trading," p. 13. https://www.sec.gov/marketstructure/research/otc_trading_march_2014.pdf.

counter without the involvement of an ATS. The 2014 study provides additional detail about the activities of Retail OTC MMs, which are estimated to have accounted for 37% of non-ATS dollar volume and 40% of non-ATS share volume.

The 2014 Study showed the influence of Retail OTC MMs is greatest among small- and micro-cap stocks, with a significant minority (49.3%) of trading market share in small-cap stocks — market capitalization between $500 million and $1 billion — and a majority (52.8%) of micro-cap stocks' trading — capitalizations below $500 million — executed by "Retail OTC Market Makers."[10] Given that institutional investors restrict their investments in small- and micro-cap stocks for various market and operational reasons, we believe that at least a large majority of the Retail OTC MMs' activity in these two categories, if not all, is retail order flow.

The influence of Retail OTC MMs in trading markets, in general, and small- and micro-cap stocks, in particular, is a significant reason why we believe the Commission should broaden the Pilot to include these off-exchange activities and the inducement payments that enable them. While we recognize the inconsistency in pricing mechanisms among these various execution venues makes comparisons difficult, we believe it is imperative the Commission find a means of measuring the economic effects of all elements of the National Market System. Without these factors, we worry the benefits and conclusions of the Pilot's data will be unsatisfactory.

Discussion

Applicable Trading Centers – Questions 1-4

In this set of questions, the Commission requests comment on their decisions to: 1) apply the Pilot to all equities exchanges; 2) to include taker-maker markets as well as maker-taker markets in the study; 3) exclude ATSs due, in part, to the incomparability of ATS fees; and 4) exclude options exchanges.

CFA Institute supports the Commission's goal of studying potential conflicts broker-dealers face from Inducements. Consequently, we support including all equities exchanges and both taker-maker and maker-taker markets in the Pilot. Collecting as many data points as possible on the effects of Inducements on broker-dealers' order-routing decisions will lead to better decisions on whether and what kind of changes are needed to improve these markets.

We recognize the differences in fee/cost structures of regulated exchanges and ATSs, as described in the Proposal, and the difficulties this creates in comparing the different types of trading facilities in one study. At the same time, both have significant and contemporary influence on the ways in which market participants choose to send client orders.

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[10] The report describes "Retail OTC Market Makers" as "recipients of significant retail order flow, some or all of these firms also provide significant broker-dealer services to institutional clients." The subsample was segregated from other broker-dealers for those "what is thought of as preferenced retail order flow." The author notes her belief that "the Retail OTC MM sample includes significant institutional order flow," though because institutional involvement in small- and micro-capitalization categories is limited due to a variety of operational and regulatory difficulties, we are left to conclude that the majority of small- and micro-cap market share is retail order flow.

We therefore do not support the decision to exclude ATS markets from the Pilot. Based on the 2014 Study cited above, ATS volume accounted for an estimated 11.3% of total dollar volume and 12.04% of total share volume of trading in NMS stocks. In normal statistical sampling, omitting 10% of a relatively normally distributed universe of datapoints would be unlikely to skew study results beyond normal margins for error. Moreover, as most of these venues don't charge high access fees, it is unlikely the Pilot would affect their businesses.

This segment of market activity is not relatively uniform in comparison with exchange-trading activities, however. While trade sizes in ATSs are similar to those of "lit" exchanges,[11] the types of investors executing trades in "dark pools" and their motivations are substantially different from the motivations of lit-market traders. In particular, dark pool investors seek to hide the magnitude of large block orders, both from the overall market and the broker-dealers who might act as agents on those orders. We believe it would benefit any future SEC decisions on Reg NMS reform to understand if or how Inducements affect trades directed to these markets.

More important, though, is the need for the Pilot to study the effects of Retail OTC MMs on order-routing decisions. Like equity exchanges, these market makers offer inducements to attract order flow – in these cases, payments to downstream brokers in return for the right to execute the retail order trades these brokers generate. While it is clear that this type of inducement has led to the routing of nearly 100% of marketable flow to Retail OTC MMs, it is uncertain a) whether payments for order flow affect the order-routing decisions of downstream broker-dealers; b) whether and how the seclusion of all or nearly all retail order flow from lit markets affects the order-routing decisions of other market participants; c) whether outcomes for retail investors are optimized; and d) whether Retail OTC MMs are using the information gleaned from this order flow to trade ahead of their clients. Finding answers to these questions call for inclusion of payment for order flow and the Retail OTC MM segment of the market in the Pilot.

We suggest inclusion of these factors into the Pilot because of the effects we believe they have on the behavior of market participants. In the same way that access fees discourage market participants from routing orders to maker/taker exchanges by increasing the cost of execution at such venues, Retail OTC MMs encourage other broker-dealers to route their retail orders to them by paying for their order flow. Over time, the ties binding these two groups of broker-dealers together have proven themselves to be inelastic. While we support a competitive market structure to ensure regulated exchanges are unable to exact monopoly/oligopoly pricing on securities transactions, we also note that the benefits derived from trading occurring away from lit exchanges diminish over time.[12]

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[11] "Alternative Trading Systems: Description of ATS Trading in Market System Stocks," by Laura Tuttle, SEC Division of Economic Research and Analysis. October 2013. The relevant information is contained in Table 3, which shoe average order size for the five- and 10-largest ATS is largely similar to average order size for the overall market. See https://www.sec.gov/marketstructure/research/ats_data_paper_october_2013.pdf.

[12] "Dark Pools, Internalization, and Equity Market Quality," CFA Institute, Rhodri G. Preece, CFA. Figure 11, "Estimated Relationship between Internalization and Bid-Offer Spreads," p.56. https://www.cfainstitute.org/-/media/documents/article/position-paper/dark-pools-internalization-equity-market-quality.ashx

Moreover, as these types of payments affect market participants interactions – or lack thereof – in large-capitalization stocks, the effect these activities have on small-capitalization stocks is particularly significant. Due to the limited number of small-cap shares held by institutional investors, trading in these stocks is deemed toxic by traders because they are executed predominantly by Retail OTC MMs within their dark, internal markets. Estimates suggest dark-trading ratios for small-cap stocks are typically greater than 50%, with some such ratios reaching nearly 90%. Traders and other market participants, therefore, do not have sufficient incentive to submit limit orders because their fill rate is too low to make it worth the adverse selection risk they face in this market segment.

Exacerbating these issues is that dark markets do not contribute to price discovery in these markets. Rather, many dark trades execute at the midpoint between the public bid and ask spread. Retail OTC MMs also engage in quote matching strategies where they transact marketable sell orders at the bid, and marketable buy orders at the offer allowing them to earn the spread between the bid and ask, without providing any liquidity into the LIT market.

It is because dark trading predominates in this segment of the market that we believe it is imperative the Pilot include payments for order flow and Retail OTC MMs, in particular.

Study of this market segment has added importance considering legislative and regulatory interest in enhancing the capital-raising capabilities of U.S. capital markets. As noted in the Proposal, the Pilot may run in tandem with a separate pilot considering tick size for small-company issuers (the "Tick-Size Pilot"). Interest in the outcomes of that Tick-Size Pilot highlights policymakers' interest in how small companies can benefit from trading markets. Given that trading in stocks of many such companies is done primarily within Retail OTC MMs' internal systems, we believe it is imperative the SEC include this market segment in the Pilot.

<u>Securities – Questions 5-15</u>

In this set of questions, the Commission seeks answers to a variety of different types of questions, including: 5) whether the proposed sample size is appropriate, and warrants and rights should be included; 6) whether it is appropriate to include exchange-traded products ("ETPs"); 7) how excluding ETPs might affect the study; 8) whether options and other types of securities should be studied; 9) whether running the Pilot parallel to the Tick-Size Pilot will create statistical difficulties; 10) whether a $2 share price threshold, and 11) a $1 minimum share price, are reasonable; 12) whether the Pilot should have a minimum market capitalization for inclusion; 13) whether a minimum trading volume threshold is needed; 14) whether the Pilot will affect issuers and capital formation; and 15) whether to permit individual issuers to opt-out of the Pilot.

In most of these cases, we support the proposals cited in this set of questions. The only factors about which we have concern within these questions are those dealing with sample size, the share-price threshold, and the Pilot's potential parallel operation with the Tick Size Pilot.

In the case of the sample size, we are uncertain about the need to include all or nearly every NMS stock in the study. We recognize the goal to determine the effects of different strata of fees and no fees increases the need for a larger sample. At the same time, though, and as noted above, we believe the Pilot would benefit as much from a broadening of the types of trading venues studied as from a broadening of the securities studied. Moreover, a smaller sample size will help reduce the costs of the Pilot.

We are also told by our members that the Commission should not include a $2 share-price threshold. Many of the effects that the Pilot might produce will be most noticeable and measurable for stocks priced between $1 per share and $2 per share, in part because the changes will be large as a percentage of share price. This would make the effects easy to observe.

With regard to the parallel operation of the Pilot with the Tick Size Pilot, we believe the study is likely to experience interaction effects of some kind if conducted at the same time, and that the study will not benefit from a clean experiment design. The lack of effects of larger tick sizes may mitigate these potential negative effects on the Pilot, but we believe it is something the Commission should carefully consider in its design.

Proposed Pilot Design – Questions 16-32

In our response to this section, we comment on questions where we either disagree with the Commission's proposal, or where we believe a direct response is warranted.

Q16. We do not believe the Pilot will render a complete picture of how inducements affect order-routing behavior without consideration of the effects of payment for order flow on the routing of retail and institutional orders. We are interested as to whether order-routing in a marketplace where orders from institutional and retail investors interact with those of proprietary traders, market makers and others would behave differently from current market practices. We expect the exclusion of one type of inducement from the study, however, will provide results that may not occur if all forms of inducement were studied in the Pilot.

The Pilot intends to shine a light on how inducements at maker-taker and taker-maker markets affect routing decisions of brokers. As stated above, we support studying these effects, but believe inclusion of payment for retail order flow would enhance the depth and informational quality of the Pilot's results.

Qs20-21. In these questions, the Commission asks whether changes in volume or liquidity in Test Group 3 would affect institutional traders, and at what levels. It also enquires about how the Commission should evaluate wider spreads for "moderately liquid" stocks and ETPs in Test Group 3 as a consequence of the absence of rebates.

We, like the Commission, believe answers to questions of how the Pilot may affect institutional traders and certain classes of securities are unknowable without data the Pilot seeks to derive. At the same time, we are aware that Inducements, including particularly rebates for the provision of liquidity, help proprietary traders offset the adverse-selection risk of public limit orders. Such

orders are at risk, in part, because Retail OTC MMs are permitted to step ahead of the national best bid or offer ("NBBO") with no or minimal price improvement. This reduces the willingness of such traders and other investors to provide liquidity. Banning or reducing rebates as proposed in the Pilot, therefore, may further reduce certain investors' willingness to provide liquidity.

We also are told that the proposed ban/reduction in access fees will reduce the trading options of some traders. Many traders seeking a quick execution will place their passive limit orders on a taker/maker exchange. Any trader taking liquidity will typically transact against this inverted market first (because they get paid to take). This allows a passive limit order trader to get a quicker execution without crossing the spread, partially offsetting some of their adverse selection risk.

So while we do not know how the changes brought in with the Pilot will affect institutional investors, we are told to expect a reduction in liquidity provision from proprietary traders. Reducing or eliminating the inducements offered by the inverse taker/maker markets, in particular, is expected to reduce the likelihood that sophisticated investors trading on lit exchanges will look to taker/maker markets to execute trades quickly. Without incentives to post liquidity to such markets, investors on lit markets will not have this outlet to seek quick and ready execution because the liquidity providers won't be there. Whether this market segment is large enough to negatively affect trade execution is likely a function of whether securities are in the high-, mid- or low capitalization segment of the market.

Q25. The Commission has the authority to establish pricing standards under Sec. 612 of Reg NMS, and we believe the Commission should take steps to update and enforce the same pricing standards upon all markets and all market participants. Permitting a two-tiered MPV system without revealing that information to investors violates fundamental principles of market integrity because it provides information to one group while disadvantaging another."[13]

To that end, we suggest that the Commission consider establishing a limited number of pricing increments, such as $0.05, $0.01, or $0.005. Issuers would be able to choose among these, but once chosen, must remain with that increment until a material event creates the need for a change in increments. We also recommend that Retail OTC MMs and other broker-dealers should have to provide meaningful price improvement to step ahead of the NBBO.

Q29. In 2014, CFA Institute commissioned a paper to look at trade-at rules adopted by regulators in Canada and Australia.[14] The paper, produced by two Australian researchers, Sean Foley from the Univ. of Sydney Business School, and Tālis J. Putniņš of the Univ. of Technology Sydney, showed mixed results for trade-at rules. In both countries, the rules required broker internalizers to provide significant price improvement, such as one full tick, over the current NBBO to be able to execute client orders away from lit exchanges.

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[13] See CFA Institute letter filed with SEC relating to Regulation NMS (File No. S7-10-04) at https://www.sec.gov/rules/proposed/s71004/usacci092204.pdf.
[14] https://www.cfainstitute.org/-/media/documents/support/advocacy/trade-at-rule-report.ashx, Sean Foley and Tālis J. Putniņš, 2013.

In their paper, Foley and Putniņš found on the positive side, that dark trading volume declined 20% in Canada and 33% in Australia as a result of the rules. Moreover, internalized trading fell as a percentage of total dark trading by more than half in Canada and by two-thirds in Australia. But while investors were going to dark markets for execution less frequently than before, they also weren't prepared to post liquidity in the lit markets. Consequently, quoted and effective spreads increased in both markets, including a 19% increase in Australia.

Based on this research, CFA Institute does not support a trade-at rule because we believe it won't produce the hoped-for redirection of dark order flow to the lit markets. We have previously recommended[15] that all functionally equivalent trading venues be subject to functionally equivalent regulations, such as access to markets, pre- and post-trade transparency, and the fair treatment of orders. Exceptions to these rules should be allowed only where a venue differentiates itself by the type or size of orders it handles, and the discretion it applies in order execution.

Q31. We recommend that the Commission permit trading venues to offer rebates when trading securities in Test Groups 1 and 2, as currently proposed.

Q32. We believe greater transparency into broker-dealer business models and/or trading practices would effectively address potential broker-dealer conflicts of interest for most institutional investors. Transparency, alone, however, would not be sufficient for retail investors or institutional investors associated with small endowments or retirement funds. In these latter cases, the active enforcement of broker-dealer best-execution requirements is imperative.

Duration – Questions 33-37

CFA Institute generally supports the proposed bifurcated two-year duration for the Pilot, with a mandated sunset after one year unless the Commission publishes notice to continue the study for the second year. We also support the six-month, pre- and post-Pilot periods as proposed. Extending the duration of the study beyond two years would nudge the study into the realm of permanent rule change, while a term shorter than one year would make it difficult to justify the investment in code changes at firms, trading venues, investors and regulators, alike.

CFA Institute also supports final action from the Commission on order-handling disclosures, ATS regulation, and guidance on broker-dealers' best execution requirements prior to launching the Pilot, as noted in Q37.

Data: Pilot Securities Exchange Lists and Pilot Securities Changes Lists — Questions 38-43

Q38. We support naming the securities in the different Test Groups prior to launch of the Pilot Period as proposed. While we believe a longer period is needed to enable investors to become comfortable with which stocks fall into which Test Group, we believe one month should serve as a minimum naming period. We also believe the SEC should use all of its communications channels to make very public announcements when the SEC will provide machine-readable lists

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[15] Trade-At Rules in Australia and Canada: A Mixed Bag for Investors," CFA Institute Policy Brief. https://www.cfainstitute.org/-/media/documents/issue-brief/policy-brief-trade-at-rules.ashx?la=en&hash=B863A792A834E5E84FE7EA03200FF908E24751DD

of which stocks will be in which Test Groups. We are told making this kind of an announcement at the close of the market on a Wednesday afternoon would make it very easy to do an event study on the effects created by the announcement, which should enhance the quality of the study.

Finally, we suggest the Commission structure the Pilot to switch stocks among the different Test Groups on a series of eight-month rotations. The purpose of this would be to ensure that each stock spends 8 months within each of the different Test Groups and, therefore, would experience the effects of the different restrictions on inducements the Pilot proposes to impose. Trading venues, too, would equally experience the full effects of the different inducement restrictions. This, we believe, would reduce the negative effects the Pilot might create because certain stocks must spend the entire Pilot phase within one Test Group. Doing so would also create events on the switch dates that will enable researchers to examine changes around the switch dates with a "differences-in-differences" approach.

Q42. Greater access to the Pilot's data will provide better results and interpretations. While disclosure on the websites of the trading venues involved is reasonable, we believe a centralized data repository would better serve the interests of researchers and the Commission. This could be done either through the SEC's EDGAR site, or through FINRA's website. Ultimately, though, this raises the question of whether either regulator has the resources to serve as repository. If not, then the Pilot should rely on the relevant trading venues' websites to warehouse the Pilot's data.

Data: Exchange Transaction Fee Summary — Questions 44-53

Q49. As proposed, the Pilot will principally focus on order routing for institutional investors. As suggested above, we believe the Commission should broaden the Pilot to include payment for order flow, Retail OTC MMs and ATSs. If this is done, then we would suggest further distinguishing between institutional and retail investors to understand the effects, if any, that retail order flow routing has on institutional order flow routing.

Q52. We support requiring trading venues to identify filings submitted to the Commission that establish changes in fees, rebates or other charges the venues impose.

Q53. In our response to Q42, above, we express support for use of a centralized repository such as EDGAR to warehouse the data. Centralizing the data will enhance the accessibility of the information more effectively than requiring researchers and others to seek data from various different trading venues. However, if resources are not available at either the SEC or FINRA to provide such centralization, warehousing the data on the websites of affected trading venues should be the fallback approach.

Data: Order Routing Data — Questions 54-63

Q61. As proposed, the Pilot would focus attention almost entirely on institutional investors, traders, market-makers and other non-retail investors. We suggest above the need to broaden the Pilot to consider the effects of payment for order flow on retail order routing, and the potential effect that may have on other order-routing decisions.

Q63. As noted above, we believe a central repository, such as EDGAR, would best serve the purpose of making the data collected accessible. The use of trading venues' websites should serve as a fallback.

Conclusion

We support the use of a Pilot program to study the effects of all forms of inducements, including payment for order flow, on broker-dealers' routing of customer orders. We also support the inclusion of ATSs and Retail OTC MMs in the Pilot to properly understand the broader implications of changes to Inducement structures in U.S. equity markets. Should you have any questions about our positions, please do not hesitate to contact Kurt N. Schacht, CFA at kurt.schacht@cfainstitute.org, 212.756.7728 or James C. Allen, CFA at james.allen@cfainstitute.org, 434.951.5558.

Sincerely,

/s/ Kurt N. Schacht

Kurt N. Schacht, CFA
Managing Director,
Advocacy
CFA Institute

/s/ James C. Allen

James C. Allen
Head, Capital Markets Policy - Americas
CFA Institute