Growing Consensus Supports Phased & Limited Reforms

Except for the proposal to enhance Rule 605, there is broad opposition to Gensler's proposals.

Two joint comment letters (NYSE/Charles Schwab/Citadel Securities and Cboe/State Street Global Advisors/T. Rowe Price/UBS/Virtu Financial) urged the SEC to take a phased approach, starting with Rule 605 reform, and to suspend its auction and best execution proposals.

In addition to these joint letters, comments from dozens of other participants, including Asset Managers, Exchanges, Retail Brokers, Academics, Sellside Brokers, and Issuer groups demonstrate the growing opposition to Gensler's agenda.

In total, the consensus comment letters represent over 300M investors and manage almost $30Tr of assets.

Broad Support	Broad Opposition		
Rule 605 Reform	**Auctions**	**Best Ex**	**Reg NMS**
SEC should take a phased approach, start with enacting Rule 605 reform and then pause the remaining proposals until after reassessing its impact on liquidity and competition.	The SEC should NOT adopt this proposal. Will harm retail investor execution quality.	The SEC should NOT adopt this proposal. Will undermine existing investor protections.	Only reduce ticks to ½ penny and only for tick-constrained symbols. Tiny ticks and harmonization would hurt investors.

Academic Literature Does Not Support Gensler's Agenda

- Independent papers from researchers at Carnegie Mellon, Notre Dame, University of Maryland and Indiana University find that an auction mandate would be harmful to investors and our capital markets.

Please see included links to respective SEC comment letters for further information.

Proposed Rule 605 Reform

Broad Consensus: Take a phased approach, start with enacting Rule 605 reform and then pause the remaining proposals until after reassessing its impact on liquidity and competition.

T.RowePrice	"Modernized Rule 605 reporting would also create a more robust data set that would inform whether additional market structure changes should be pursued. Like many other commentators, we believe updating the data in Rule 605 reports is a natural first step." **- T. Rowe Price**
Vanguard	**"**The Commission Should Implement Market Structure Reforms Sequentially to Avoid Unintended Consequences that Could Harm Investors." **- Vanguard**
MFA	"[W]e think that the Commission should take a more gradual and incremental approach overall." **- Managed Funds Association (MFA)**
Fidelity Investments	"Specifically, we recommend the SEC launch their equity market structure reform agenda by first adopting proposed amendments to Rule 605, with certain modifications. … Implementation of proposed amendments to Rule 605 as an initial step would provide regulators, market participants, and the public a strong, data-driven benchmark against which to evaluate future reforms." **- Fidelity**
LPL Financial	"Consider Delaying Rulemaking to Measure Effectiveness of Changes to Rule 605." **- LPL Financial**
J.P.Morgan	"If the Commission decides to adopt any of these rules, it should do so one at a time and in a sequential order that will enable an informed evaluation of how each incremental change affects the market." **- J.P. Morgan**
UBS	"We believe the SEC should implement the proposed changes to Rule 605 and study the data generated by the updated framework before moving forward with other highly impactful market structure changes." **- UBS**
NYSE	"[T]he proposed changes to Rule 605 will provide enhanced execution quality disclosure that will benefit issuers and investors. NYSE believes that outcomes from those changes should be assessed before any additional changes are made that would impact routing decisions." **- New York Stock Exchange (NYSE)**
Cboe	"Cboe believes that the proposed changes to the Rule 605 Reports could ultimately provide enhanced execution quality statistics to investors, and that prior to implementing wholesale changes to equity market structure, the Commission should begin by refining Rule 605 Reports as proposed to obtain more relevant data points from which to base its analysis related to potential future market enhancements." **- Cboe**
CATO INSTITUTE	"[A]ny change should be undertaken with great care and for great benefit, particularly in light of the potential for unintended consequences. However, the Commission's analysis of the costs and benefits of this proposal does not show evidence of such care and suggests that any benefit is likely to be outweighed by the proposal's costs." **- CATO Institute**

Please see included links to respective SEC comment letters for further information.

Auction Proposal (1/2)

Broad Consensus: The SEC should NOT adopt this proposal; Will harm investor execution quality.

CAPITAL GROUP®	"[W]e think the proposed auction mechanism could have unintended consequences that actually increase volatility of lower liquidity stocks and reduce price improvement for retail investors." **- Capital Group**
Morgan Stanley	"We respectfully recommend that the Commission not adopt this proposal." **- Morgan Stanley**
Dimensional	"[W]e do not support a rule that would mandate auctions for all retail orders." **- Dimensional Fund Advisors**
STATE STREET GLOBAL ADVISORS	"We recommend not moving forward with this proposal due to the risks of unintended consequences for investors." **- State Street Global Advisors**
NASP National Association of Securities Professionals	"[T]here is cause for serious concern that the SEC's market structure rule proposals may actually reverse the recent influx of younger and more diverse individuals into the stock market." **- National Association of Securities Professionals (NASP)**
charles SCHWAB	"Schwab strongly opposes the Order Competition Proposal and recommends the Commission withdraw it in its entirety. It is a radical and unnecessary re-write of existing equity market structure based on theories supported by flawed analysis, and it threatens a host of damaging consequences for retail investors." **- Charles Schwab**
Robinhood	"[W]ith its experimental so-called Order Competition Rule, the SEC would—for retail investors only—revert to the exchange oligopolies that Congress directed it to abolish fifty years ago." **- Robinhood**
J.P.Morgan	"We oppose the proposed Order Competition Rule, because we believe (1) it will negatively impact security prices for our clients and (2) the potential benefits have been overestimated." **- J.P. Morgan**
InteractiveBrokers	"The result [of the OCR] is likely to be a reduction in liquidity at the NBBO, and, in many cases, widening of bid/ask spreads." **- Interactive Brokers**
NYSE	"The Auctions Proposal includes overly prescriptive elements that could potentially undermine the national market system, stifle competition, and potentially harm investors." **- New York Stock Exchange (NYSE)**
Cboe	"[T]he Commission should not move forward with its proposal to mandate equity auctions..." **- Cboe**
Nasdaq	"[T]he SEC risks too much by solely focusing on qualified auctions, as there is no silver bullet solution to the problem it identifies." **- Nasdaq**
Georgetown University	"Even exchanges don't like this proposal. That should tell you something!" **- Professor Jim Angel at Georgetown University**
ND	"[T]he Commission's auction proposal has the potential of creating a net loss for retail investors even if one accepts the Commission's estimated benefit" **- Professor Robert Battalio (Notre Dame)**

Please see included links to respective SEC comment letters for further information.

Auction Proposal (2/2)

Broad Consensus: Institutions will not replace lost wholesaler liquidity.

CAPITAL GROUP®	“Several of our broker counterparties provide Capital Group with access to their retail order flow. It is our experience that this flow provides limited natural matching opportunities. Retail trading is more concentrated in individual names, low prices stocks, and small cap companies than institutional order flow.” **- Capital Group**
Vanguard®	“[M]any institutions and retail investors tend to trade different securities and at different times.” **- Vanguard**
ICI INVESTMENT COMPANY INSTITUTE®	“[I]t is not clear that the proposed auctions would result in significant interaction between retail and institutional orders.” **- Investment Company Institute**
J.P.Morgan	“[W]e believe the Commission vastly overestimates the increased price improvement that institutional traders would receive by being able to interact directly with individual investor order flow in qualified auctions.” First, it is not likely that institutional and retail order flow would match in a meaningful way. Institutional and retail investors trade different stocks, in different sizes, at different times...” **- J.P. Morgan**
Goldman Sachs	“Outcomes [to institutional investors from OCR] would be (1) increased opportunity cost for unfilled orders as prices continue to change in a dynamic market; (2) a greater risk of information leakage during the qualified auction, …; and (3) increased operational risk resulting from the routing of orders in response to auction messages.” **- Goldman Sachs**
Council of Institutional Investors®	“[W]e generally agree with SEC Commissioner Hester M. Peirce that “institutional investors may not expend much effort to participate” in the new auction mechanisms created by the Order Competition Proposal. In particular, for many institutional investors, the risk of potentially revealing their identities and trade interest to even a single dealer by participating in the proposed new auction mechanisms could materially outweigh any potential benefits of receiving the executions.” **- Council of Institutional Investors**
HEALTHY MARKETS TRANSPARENCY & TRUST	“We question the extent to which traditional, long-only or other large “institutional” investors are likely to compete for order flow in the proposed auctions. Put simply, institutional investors are generally looking to buy or sell very significant volumes of securities and are extremely sensitive to adverse selection and heightened execution costs that could arise from information leakage about their intentions prior to the completion of their trades.” **- Healthy Markets**
Carnegie Mellon University	“We document that the IEX RLP has two-sided liquidity less than 5% of the trading day, suggesting institutional traders have relatively modest interest in trading directly with retail traders.” **- Professor Chester Spatt (Carnegie Mellon) and former SEC Chief Economist**

Please see included links to respective SEC comment letters for further information.

Best Execution Proposal

Broad Consensus: The SEC should NOT adopt this proposal; Will undermine existing investor protections.

CAPITAL GROUP	"We have concerns with the Best Executions Proposal's focus on price to the exclusion of other factors and what appears to be a distinct standard from that currently imposed by FINRA rules and guidance."**- Capital Group**
State Street Global Advisors	"[We] support the goals of improving execution for individual investors. We are concerned, however, that the proposed rule's prescriptive approach to best execution (i.e., the singular focus on price without adequately weighing other factors) would have the opposite effect, particularly for larger orders." **- State Street Global Advisors**
Dimensional	"We strongly recommend that the Commission revise its Best Ex Proposal." **- Dimensional Fund Advisors**
MFA	"The Commission should not … adopt[] a Commission-level best execution standard that duplicates existing SRO rules." **- Managed Funds Association**
Robinhood	"This rule should be rejected in its entirety." **- Robinhood**
LPL Financial	"The added costs and complexity of the proposed rules create the risk of making the markets inaccessible for a critical portion of the investing population. As costs rise and profits are constrained, liquidity providers may withdraw from the market." **- LPL Financial**
Goldman Sachs	"Adding Another Best Execution Standard Is Unnecessary and May Diminish Execution Quality: This will have an unintended negative impact on execution quality for larger customer orders, especially institutional orders." **- Goldman Sachs**
Morgan Stanley	"We respectfully recommend that the Commission not adopt this proposal." **- Morgan Stanley**
NYSE	"We … strongly support the principle of Best Execution, but … recommend withdrawing this proposal." **- New York Stock Exchange (NYSE)**
Cboe	"Cboe continues to support increased clarity and consistency with respect to best execution standards. However, we are not convinced an entirely new rule is necessary." **- Cboe**
Bio Biotechnology Innovation Organization	"BIO urges the Commission to consider the potential negative effects these proposed rules can have on small, R&D-focused companies and capital formation. In this case, as in others, the SEC has not included an adequate assessment of the impact of the proposed rule on small companies and did not include an analysis of the consequences to capital formation." **- Biotechnology Innovation Organization (BIO)**

Please see included links to respective SEC comment letters for further information.

Proposed Reg NMS Changes

Broad Consensus: Only reduce ticks to ½ penny and only for tick-constrained symbols; Tiny ticks and harmonization would hurt investors.

Vanguard	"We are particularly concerned that tick sizes of less than one half of a cent per share could harm mutual funds and their investors." **-** **Vanguard**
Invesco	"We suggest that the Commission adopt the reduction of tick sizes to $0.005 and assess whether additional reductions of tick sizes are necessary in the future." **-** **Invesco**
BlackRock	"BlackRock recommends that the Commission eliminate its proposed amendments to Rule 612 [for] … tick harmonization." **BlackRock**
Dimensional	"[W]e believe that the Tick Size Proposal … is unnecessarily complex and would be an extreme and costly change for investors that may also have unforeseen consequences on the market." **-** **Dimensional Fund Advisors**
TRS Investment Management Division; Ontario Teachers' Pension Plan; CPP Investments; CalPERS	"Adopting overly-narrow tick increments therefore makes it more likely investors will routinely lose execution priority to the fastest trading firms and will trade at less advantageous prices when their orders do execute." **-** **Ontario Teachers' Pension Plan, CalPERS, CALSTRS, Canada Pension Plan Investments, Teacher Retirement System of Texas (TRS)**
ICI Investment Company Institute	"Based on our longstanding concerns about the consequences of excessively granular quoting tick increments on funds and their advisors, we strongly oppose applying multiple new sub-penny increments." **-** **Investment Company Institute**
Fidelity Investments	"We do not see a clear retail investor benefit to the Commission's proposed smaller tick sizes. … All of these potential outcomes could harm retail investors." **-** **Fidelity**
InteractiveBrokers	"[W]e believe the proposed tick-size increments are too small for most stocks and will lead to substantially increased fragmentation of liquidity over several price levels. We fear the result will be that the NBBO, which the Chairman has already lamented may not be very meaningful, will simply become less meaningful still." **-** **Interactive Brokers**
J.P.Morgan	"[W]e recommend that the Commission initially reduce the quoting tick size to $0.005 (1/2 penny) for tick-constrained stocks." **-** **J.P. Morgan**
Goldman Sachs	"[S]ub-penny quoting decreases the incentives for displayed liquidity by lowering the economic cost for stepping ahead of displayed orders. Simultaneous changes in tick size and access fees may further alter the stability of the NBBO in unpredictable ways." **-** **Goldman Sachs**
Nasdaq	"Nasdaq suggests a simpler approach of adding one tick size below one penny – at $0.005 – to help tick-constrained securities trade more naturally." **-** **Nasdaq**
Cboe	"We strongly believe that an increment of $0.005 for tick-constrained securities is a prudent starting point that will prevent the negative consequences highlighted above." **-** **Cboe**

Please see included links to respective SEC comment letters for further information.

Academic Literature Does Not Support Gensler's Agenda

On the Potential Cost of Mandating Qualified Auctions for Marketable Retail Orders
Battalio (Notre Dame) and Jennings (Indiana University)
KEY FINDINGS
- The potential costs of failed auctions may be on the same order of magnitude or more as the potential benefits of the SEC's auction proposal.
- In several of the scenarios examined, the SEC's auction proposal has the potential of creating a net loss for retail investors even if one accepts the SEC's estimated benefit.

Would Order-by-Order Auctions Be Competitive?
Ernst (University of Maryland) and Spatt (Carnegie Mellon)
KEY FINDINGS
- Retail investors can be worse off in the switch to order-by-order auctions, particularly in times of high volatility or in illiquid stocks, when market participants could opt not to provide any liquidity in the auction.
- Auctions have less competition than the [current wholesale] system.
- Market makers obtain higher profits in the auction relative to the [current wholesale] system.

The Retail Execution Quality Landscape
Dyhrberg, Shkilko (Wilfrid Laurier) and Werner (Ohio State)
KEY FINDINGS
- Wholesalers provide ~$1bn of price improvement per month.
- Retail brokers reward wholesalers that offer lower liquidity costs with more order flow.
- The largest two wholesalers charge the lowest liquidity costs.
- Neither a new wholesaler entry nor an increase in retail broker bargaining power reduces liquidity costs charged by wholesalers – demonstrating that wholesaling is highly competitive.

Why do Brokers who don't Charge PFOF Route Orders to Wholesalers?
Battalio (Notre Dame) and Jennings (Indiana University)
KEY FINDINGS
- Retail brokers route orders to wholesalers because the wholesalers provide better execution quality than what the brokers can otherwise obtain from exchanges – almost 91% of the time.
- Wholesalers provide significantly more value to retail investors than what is reported by Rule 605.

Please see included links to respective SEC comment letters for further information.