

From: Tim Quast [REDACTED]
Sent: Tuesday, December 05, 2017 7:11 PM
To: Clayton, Jay
Subject: Re: Access Fee Pilot Program

Chairman Clayton,

I see word out today from Bloomberg that your agency may proceed in 2018 with a pilot program testing variable caps on access fees. Among the recommendations back in July 2016 under the previous regime was “the participation of additional outside experts.”

I proposed to the House Financial Services Subcommittee on capital markets in written testimony an Issuer Advisory Committee, and here’s a chance to dovetail two objectives. It would be an egregious oversight to omit representatives of public companies whose stocks power the market.

Second, consider how capped access fees are the OPPOSITE of the two-sentence Buttonwood Agreement from the 18th century (May 17, 1792 to be exact). That agreement had 24 brokers agreeing to give each other preference and to charge a minimum, not a maximum, commission, so none would undercut on price. The market today caps fees, and prohibits preference – the opposite of the structure that built our great capital markets.

The problem isn’t capped fees. The problem is that capped fees and uniform rules prohibiting preference force exchanges to engage in schemes to attract the BBO. If they don’t have it, they don’t match trades and they don’t capture market share and generate valuable data to sell back to brokers required to buy it. So they pay brokers incentives to set prices. That’s why you have rebates and “inverse” markets – so they can set both the Bid and Offer.

The problem with that is the Bid and the Offer are being set for arbitrage purposes by parties that don’t want to own what they price. Unless the study address in some this distortion with a pilot program, we’ll all waste time and money and arrive at no meaningful conclusions. Drive down access fees and the cost of data from exchanges will simply go up. They have to make money somehow.

I hope you don’t mind if I send the note to you, busy man that you are. I’m sure it’ll make its way to appropriate staff.

PS – The single greatest need for public companies right now isn’t an Access Fee study but monthly long-short 13Fs. That you could do via rulemaking in a few months. Dodd-Frank already gave you the legislative imprimatur by requiring regulators to effect monthly short-reporting. We can hardly have monthly shorts – and long positions 45 days after the end of the quarter. How about aligning and modernizing?

Best, -TQ

Tim Quast
President
ModernNetworks IR LLC
1490 S Pearl Street Ste 100
Denver CO 80210

[REDACTED]
[REDACTED]
<http://www.modernir.com>

Get the Market Structure Map – Weekly market perspective
<http://modernir.com/msm/> (and click “Subscribe”)
