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May 7, 2018

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

Re: TRANSACTION FEE PILOT FOR NMS STOCKS (FILE NUMBER: S7-05-18)

Dear Mr. Fields:

AJO, L.P. ("AJO") appreciates the opportunity to submit this comment letter in support of the Transaction Fee Pilot for NMS Stocks ("Pilot") proposed by the Securities and Exchange Commission ("Commission").

AJO is an independent investment adviser registered under the Investment Advisers Act of 1940. Established in 1984, AJO maintains offices in Philadelphia, PA and Boston, MA. As of 3/31/2018, the firm managed $25.4 billion in value-oriented domestic and non-U.S. equity mandates for 114 institutional clients. AJO offers its services to pension funds, endowments, foundations, multi-employer plans, and pooled investment clients. We view each client relationship as a partnership and pride ourselves on providing peerless client service. In this role, we take seriously our responsibility to advocate for our clients as we help them navigate today's equity marketplace and achieve their long-term investment goals.

AJO supports the Pilot and applauds the SEC for proposing it in its current form. The current market system of multiple exchange pricing structures, rebates, and other inducements to trade has created unnecessary fragmentation and undeniable broker routing conflicts. With respect to the latter, the current U.S. system has created an environment in which brokers are regularly forced to choose between their buy-side clients' best interest (best average execution price) and their own bottom line (lowest cost to trade). When these two choices are not congruous, therein lies a conflict of interest. We believe that the Pilot will serve as a constructive exercise in helping to inform the ongoing debate surrounding the effects of access fees, rebates, and other inducements to trade on routing behavior and market quality. Furthermore, we are hopeful that the data collected can be used to help drive positive market structure change, both for our clients and for investors in general.

TRADING CENTERS

The Pilot should include all equities exchanges, regardless of structure (maker-taker, taker-maker, flat fee), because rebates of any kind provide inducements to trade and distort markets. In its critique of the Nasdaq experiment, the Commission states: "Nasdaq's experiment involved a small sample of stocks on a single market for a short duration, all of which make it difficult to draw inferences about what would happen if all exchanges participated in the same experiment simultaneously." We agree wholeheartedly with this statement. Excluding any exchange structure type from the Pilot would restrict the sample size, provide only a partial view of the broader trading landscape, and ultimately skew results.

ATS Exclusion

While we believe the Commission should aim to be as holistic as possible when determining the trading venues to include in the study, we do not think it necessary to include ATSs in the Pilot. We acknowledge that a large proportion of equity trading volume occurs off-exchange and that this volume, like exchange volume, is subject to inducements to trade. However, the inducements (low fees, no fees, rebates) offered by ATSs and other off-exchange venues are not universal across all broker-dealers or market participants. Instead, the fees paid (or not paid) by market participants to ATSs and other off-exchange venues are negotiated between each market participant and the trading venue. While it may be free for one broker to trade on Venue A, another broker may be charged a fee. The fees charged to brokers by off-exchange trading venues are not publicly disclosed; however, even if disclosed, the number of fee permutations and inconsistencies across brokers for any single ATS could be substantial. To include any ATS in the Pilot would necessitate the inclusion of every market participant's negotiated fee schedule with that ATS. Further, and as the Commission states, "to the extent ATSs do not charge transaction-based fees, it is not practicable to include them in a pilot that is structured to test the impact of changes in transaction fees."

Securities

The Pilot should encompass the broadest universe of securities, as is feasible, in order to maximize the sample size and provide the most robust dataset possible. Exchanges apply the same pricing structure to all securities regardless of market capitalization. Omitting securities of a specific market cap seems arbitrary, would provide an incomplete view of the overall market, and runs the risk of excluding meaningful data and biasing the study. For this reason, stocks from every market cap should be included and issuers should not be allowed to opt-out. The list of Pilot Securities, as currently proposed, is appropriate and sufficiently broad in scope.

Duration and Design

We believe the proposed duration of 2 years, with an automatic sunset after 1 year, is sufficient to collect enough data to analyze the impact of transaction fees and rebates on routing practices and market quality. We do not believe an initial phase-in period is necessary. Nor do we believe the Commission should delay the Pilot in order to prioritize other proposals. We feel strongly that a wholesale evaluation of fees, rebates, and order routing is long past due. We ask that the Commission not delay this important initiative any further.

We were very pleased to see a no-rebate bucket in the proposed Pilot. If, as the Commission suggests, the main goal of the Pilot is to evaluate the effect of rebates on routing behavior and execution quality, it is imperative that a no-rebate bucket exists in the final version. Such an evaluation seems far more difficult absent the inclusion of a no-rebate group of stocks.

ADDITIONAL COMMENTS

As commission rates have decreased over time, brokers have sought tactics that allow them to maintain margins. Most institutional clients pay a fixed commission rate to their executing brokers for their services. By minimizing the (variable) cost to trade through economical routing, a broker can seek to maximize the amount of commission dollars it keeps. In recent years, we have seen a sharp rise in broker internalization (executing in one's own dark pool). It is up for debate whether brokers favor their own dark pools in order to minimize information leakage and/or slippage, maximize margins, or some combination of both. What is non-debatable is that the current model (maker-taker, taker-maker, rebates, etc.), at a minimum, enables brokers to act in their own best interest if they so choose.

Including off-exchange data in the study would be invaluable if there were a viable way to do it. However, as previously stated, we believe the inclusion of ATSs and other off-exchange venues in the Pilot is unrealistic. That said, for Test Group 3 stocks in particular, we are wary of a potential increase in off-exchange trading and the possibility of increased transaction costs. This is not to equate off-exchange trading with higher trading costs, but to point out that the off-exchange venues offering the best inducements to trade may not offer the best or cleanest liquidity for the underlying investor. For instance, in order to offset the loss of rebate income inherent in the no-rebate bucket, brokers may be even more inclined to route orders to the off-exchange venues offering the best deal, or inducements to trade. In this scenario a broker would benefit from the cheaper cost to trade but, depending on the venue, the underlying client could run a higher risk of being adversely selected.

Finally, we applaud the Commission for including a requirement that each exchange make public its order routing data and that this data is easily accessible, unencumbered "by user name, password, or access constraints" and not "subject to any usage restrictions, such as restrictions on retrieval, distribution, and reuse." We appreciate this level of transparency and that the Commission sees value in providing the data to independent researchers. While the Commission will obviously consume this data, it will also serve as the foundation of future independent research and we are very excited about the prospects of its usage. We thank the Commission for making this possible.

On behalf of our clients, we are proud to submit this comment letter.

Sincerely,

Sean D. Paylor
Trader
[redacted]