

May 15, 2018

Via Electronic Mail [rule-comments@sec.gov](mailto:rule-comments@sec.gov)

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

Dear Mr. Fields:

Re: **File No. S7-05-18, Transaction Fee Pilot for NMS Stocks**

OMERS Administration Corporation appreciates the opportunity to comment on the Transaction Fee Pilot for National Market System (NMS) stocks proposed by the Securities and Exchange Commission (SEC).

The Ontario Municipal Employees Retirement System (OMERS) Primary Plan is the defined benefit pension plan for approximately 461,000 active, deferred and retired employees from nearly 1,000 municipalities, school boards, libraries, police and fire departments, and other local agencies in communities across Ontario Canada. OMERS Administration Corporation, as trustee and administrator of the OMERS Primary Pension Plan Fund, is a statutory corporation without share capital continued pursuant to the Ontario Municipal Employees Retirement System Act, 2006, S.O. 2006, c.2. OMERS Administration Corporation is a global investor, responsible for managing over \$95 billion CAD in net assets across a range of public and private market investment strategies, including substantial holdings of US and Canadian equities. OMERS values reflect integrity, service, teamwork, excellence and stewardship.

We strongly support the adoption of a Transaction Fee Pilot and the SEC's efforts to take a data-driven approach to improving equity market micro-structure. We have two additional recommendations for the SEC to consider.

1) We suggest that the SEC coordinate its implementation of the Transaction Fee Pilot with the Canadian Securities Administrators. Canadian and US equity markets have much in common. There are approximately 190 Canadian and US companies that trade on an inter-listed basis. As a subset of NMS securities, inter-listed stocks are uniquely positioned to provide insight into the effect of transaction fees on order routing and market quality. There are also key differences in Canadian and US market micro-structure that may help enrich the pilot study.



2) Clearly lay out the parameters and metrics to be studied by individual trading firms and the SEC. The SEC should explicitly detail the specific questions it wishes to address, detail the exact data needed to do that, outline how it will collect the relevant data to analyze and answer those questions, and then explain how the SEC, market participants, and researchers will be able to use that information to answer those key questions.

In the paragraphs below, we provide specific comments on key parts of the pilot design.

### **Pilot Structure**

We support the use of a notice, comment and rulemaking process over an NMS plan. By making the pilot a SEC rule, as opposed to a NMS Plan, the SEC is appropriately taking ownership and control of the process, and not outsourcing this key regulatory function to the very for-profit exchanges that might be most resistant to the pilot. This will help ensure that the transparent public interest guides the project, not economic self-interests of some market participants.

### **No Rebate bucket**

We strongly support the inclusion of a “zero rebate” bucket (Test Group 3). Transaction fees may have no impact, a proportional impact, or a meaningful impact on order routing, execution quality, and overall market quality. The inclusion of Test Group 3 will help clarify the extent of the relationship, if any. If any market maker exception is granted, we urge you to keep it narrowly construed so that it does not permit brokers acting on behalf of customers to avoid the prohibition.

If a beneficial relationship between transaction fees and rebates, and market quality metrics is observed, the next step would be to determine if the observed benefits are worth the costs. Who pays the costs and who reaps the benefits may also warrant further investigation.

### **All Exchanges**

We support the inclusion of all exchanges. The SEC’s Equity Market Structure Advisory Committee’s (EMSAC) recommendation focused only on access fees for taking liquidity. As proposed, the EMSAC recommendation would leave out the examination of inverted trading venues. Inverted trading venues use transaction fees in a powerful, counter-intuitive fashion and deserve further study.

The size of transaction fees relative to the average bid/ask spread for most NMS securities is large. In a decentralized, multi-market trading environment, varying the size of the transaction fee across trading books is effectively the same as quoting a different net-of-fee price in the consolidated inter-book queue. When synthetically rebuilding the net of fee inter-book queue it is important to include all exchanges. It is the net-of-fee inter-book queue that incentivizes order routing decisions.

**Scope and Duration**

We are supportive of the scope and duration of the pilot with the exception that the SEC should coordinate with Canadian regulators to examine the impact of transaction fees on US/Canadian inter-listed securities.

**Pending Market Structure Initiatives**

We support the adoption of additional order handling and Alternative Trading System disclosures, and we appreciate the Chairman’s remarks that the SEC’s outstanding proposals in those areas may be finalized soon. While we view those rules as important, and potentially helpful in providing us with information with which to evaluate this pilot, we would encourage the SEC not to delay the Transaction Fee pilot.

**Concluding Remarks**

Incentives drive behavior. Transaction fees are a monetary incentive to provide and take liquidity on a trading venue. Well-structured incentives may help lead to more efficient outcomes. Similarly, less well-structured incentives can create suboptimal outcomes such as increased trading costs, conflicts of interest and delayed executions.

We commend the SEC for proposing this pilot. We thank you for the opportunity to provide these comments. We would be happy to address any questions you may have and appreciate the time you are taking to consider our points of view.

(Signed)



**Brent Robertson**  
Managing Director  
Trading

Rob Gouley  
Principal, Trading

cc: Ontario Securities Commission

