

Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090
United States
www.sec.gov

Chris Barnard

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- **17 CFR Parts 200 and 242**
- **Release No. 34-82873; File No. S7-05-18**
- **Transaction Fee Pilot for NMS Stocks**

Dear Sir.

Thank you for giving us the opportunity to comment on your Proposed rule on: Transaction Fee Pilot for NMS Stocks.

You are proposing to conduct a Transaction Fee Pilot for National Market System (NMS) stocks to study the effects that transaction-based fees and rebates may have on, and the effects that changes to those fees and rebates may have on, order routing behaviour, execution quality, and market quality more generally. The data generated by the proposed pilot should help inform the SEC, as well as market participants and the public, about any such effects and thereby facilitate a data-driven evaluation of the need for regulatory action in this area.

I strongly support your proposed Transaction Fee Pilot, which should provide credible analyses of the effects - both positive and negative - of exchange fees and rebates on the quality and efficiency of trading. This is important, as historically there are many views on this topic, but a paucity of credible data from which to draw conclusions.

I am not in principle a supporter of caps on fees, such as those imposed by Rule 610(c) of Regulation NMS. Market behaviour tends to cluster fees at or around such caps, with the cap effectively becoming the fee charge by the market. Caps are also anti-competitive. For these reasons I would recommend that the SEC should include a new Test Group 4, which has no fee cap. The data and results obtained from this new Test Group and also Test Group 3, in which rebates and linked pricing are prohibited, should provide the most credible and interesting analysis and potential conclusions.

In response to your specific requests for comment I would add the following:

16. As suggested above, I would recommend that the SEC include a new Test Group 4 with no fee cap. This would help to ensure that the proposed Pilot is reasonably designed to evaluate the effect of transaction fees on order routing behaviour, execution quality and market quality.

17. I do not think that the absolute level of fee cap is important for Test Groups 1 and 2.¹ Of more importance is that the change in fee cap is significant for both Groups.

19. Yes, the proposed restrictions in Test Group 3 on rebates and linked pricing are reasonable. The proposed language in Rule 610T(a) is also clear.

23. Given a long-enough pilot, and the absence of internal agreement or cartel behaviour, competition and market forces would be expected to produce a market equilibrium that settles exchange access fees at new levels, which should be expected to be at or below today's current pricing.

Yours faithfully

C.R.B.

Chris Barnard

¹ I would argue that this is especially the case for fee caps that are based on a per-share basis, as the significance of such fee caps for different shares is not fixed, but rather varies depending on share prices.