

May 23, 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 No. S7-05-18)

Dear Mr. Fields:

Nuveen, LLC (“Nuveen”),¹ the investment management subsidiary of Teachers Insurance and Annuity Association of America (“TIAA”), appreciates the opportunity to comment on the Securities and Exchange Commission’s (“SEC”) proposed Transaction Fee Pilot for National Market System (“NMS”) stocks (the “Fee Pilot”).² We are writing to express our support for the Fee Pilot, as well as to request that the SEC consider one change that we believe would make the Fee Pilot more effective.

Like many asset managers, we believe that certain fee structures designed to incentivize market activity, including exchange rebates and maker-taker/taker-maker pricing, may impact the marketplace in ways that are not yet fully understood – and as such, we believe they warrant close examination by the SEC. We applaud the SEC for proposing the Fee Pilot to study the effects these pricing practices may have on order-routing behavior, execution quality, and market quality more generally. However, to avoid creating competitive inequalities among competing funds, we recommend the SEC modify the design of the proposed Fee Pilot to place competing funds in the same pilot test groups, as described in more detail below.

We strongly support the SEC’s proposed Fee Pilot.

In recent decades, technological advances in the financial-services sector have spurred the development of market innovations aimed at encouraging competition and lowering execution costs. While these innovations often create significant benefits for investors, they

¹ Nuveen is a wholly-owned subsidiary of TIAA, and includes investment advisers that collectively manage over \$950 billion in assets, including in the Nuveen and TIAA-CREF mutual fund complexes. Nuveen is the parent company of several investment subsidiaries, including Nuveen Asset Management, Symphony Asset Management, NWQ Investment Management Company, Santa Barbara Asset Management, Winslow Capital Management, Gresham Investment Management, and TIAA Investments.

² *Transaction Fee Pilot for NMS Stocks*, SEC Release No. 34-82873, 83 Fed. Reg. 13008 (March 26, 2018), available at <https://www.gpo.gov/fdsys/pkg/FR-2018-03-26/pdf/2018-05545.pdf>.

may also have unintended consequences. As a prime example, exchange rebates, maker-taker pricing, and taker-maker pricing have become increasingly popular with exchanges looking to attract liquidity – but these pricing structures could potentially create conflicts of interest for brokers or impact the marketplace in other ways that are not yet well understood. For that reason, we support the SEC’s proposal to institute a Fee Pilot to study the effect of transaction fees on market quality and order-routing behavior. We hope that the data produced by the Fee Pilot will facilitate an informed discussion within the SEC and throughout the industry as a whole on how rebate fee structures may influence market quality and investor outcomes.

In particular, we applaud the SEC for including in the Fee Pilot a no-rebate test group for purposes of examining the effects of an outright prohibition on transaction-based rebates. We believe the no-rebate test group will help the SEC determine whether rebates have an effect on execution or market quality. We support the inclusion of *all* NMS exchanges – including “inverted exchanges” that offer a taker-maker pricing model – in the Fee Pilot to ensure that the SEC is able to consider the impacts of all types of rebates. We also share the SEC’s view that a more comprehensive Fee Pilot “covering all NMS stocks, including those with market capitalizations below \$3 billion, would produce a more meaningful dataset to facilitate broader analysis of the impact of transaction fees and rebates across the full spectrum of NMS stocks...”³

We urge the SEC to place competing funds in the same Fee Pilot test groups.

While we support the SEC’s use of the Fee Pilot to investigate the potential impacts of exchange rebates and maker-taker/taker-maker pricing practices on order-routing behavior, execution quality, and market quality, we are concerned that the proposed Fee Pilot as currently designed could have unintended consequences for certain funds. The proposed Fee Pilot would examine the impacts of certain pricing structures across three test groups – one with a \$0.0015 fee cap for removing and providing displayed liquidity, with no cap on rebates; a second with a \$0.0005 fee cap for removing and providing displayed liquidity, with no cap on rebates; and a third that prohibits rebates and linked pricing for removing and providing displayed liquidity and non-displayed liquidity. These three test groups would be compared to a control group, which would apply the cap set forth in Rule 610(c) of Regulation NMS under the Securities Exchange Act of 1934 to fees for removing displayed liquidity.⁴

Under the proposed Fee Pilot as currently designed, competing funds may be placed in different test groups – which, we believe, may give certain funds a competitive advantage over others. As such, we recommend that the SEC place competing products in the same test pilot groups to avoid potential adverse competitive consequences.

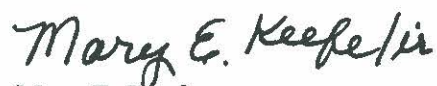
³ *Id.* at 13018.

⁴ *Id.* at 13019-13022.

Conclusion.

Nuveen commends the SEC for working to better understand the potential market impacts of exchange rebate and maker-taker/taker-maker pricing practices. We hope that our suggested revision to the proposed Fee Pilot will ultimately serve to strengthen the effectiveness of this initiative. We would welcome the opportunity to engage further on any aspects of the foregoing.

Sincerely,

A handwritten signature in black ink that reads "Mary E. Keefe/i". The signature is written in a cursive style.

Mary E. Keefe
Managing Director, Regulatory Affairs