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Securities and Exchange Commission
100 F St. NW
Washington, DC 20549-9303
Rule-comments@sec.gov

Re: Transaction Fee Pilot

File S7-05-18

Dear SEC:

I strongly support the proposed pilot program. I believe that it is well designed and will generate useful data that will answer many questions about the role of maker-taker access fees in our markets. I have just a few comments:

The price controls on access fees indicate something is broken in market structure.

The cap on maker-taker access fees is a price control. Governments generally impose price controls only when there is some defect in a market structure that impedes price competition. Price controls are used, among other places, in utility regulation where there is no competition, and in traditional taxis where consumers have little ability to shop around or negotiate.

[1] All opinions are strictly my own and do not necessarily represent those of Georgetown University or anyone else.

The price control on access fees is necessary because the Order Protection Rule (OPR) effectively requires orders to be routed to the exchange with the "best" price but without taking access fees into account. This is like being forced to order goods on eBay without taking shipping costs into account. Hence, the SEC is faced with ratemaking to determine the optimal level of the cap on access fees.

Brokers and exchanges already have extremely strong incentives to deliver best execution to their customers. Serious consideration should be given to replacing the OPR with a requirement for brokers to supply an enhanced execution quality report to their customers.

Make sure that treatment groups and controls have the right balance of ETPs.

Although ETPs are designed to trade through the equity market mechanism, experience shows that they trade very differently at the microstructure level.[2] For this reason, care should be taken in the selection of the securities for the various treatment groups to make sure that there are appropriate numbers of both ETPs and corporate stocks in each treatment group. If one is not careful, one treatment group could have too many or too few ETPs. The analysis of the pilot should take into account the differences in the way ETPs trade from corporate stocks.

Keep like ETPs in the same treatment groups.

The concern that some ETPs may be at a disadvantage relative to very similar ETPs in a different treatment group is a valid concern. On the other hand, very similar ETPs make natural controls for each other, suitable for a difference-in-difference statistical treatment. However, fairness would indicate that similar ETPs should be in the same treatment group so avoid giving one ETP an unfair advantage over its clone.

There is no need to eliminate stocks below $2.

The proposal arbitrarily eliminates stocks between $1 and $2 on the grounds that they just might drop below $1 and thus subject to different treatment. This is not grounds for elimination, but an opportunity for analysis. Impacts and distortions resulting from access fees are likely to be largest in this price category, and for that reason this group should not be eliminated. Not all of them will drop below $1. The data will be useful to examining what happens to these stocks, especially those flirting just above or below the $1 cutoff. Those events will be worth studying.

Respectfully submitted,

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[2] The Commission's excellent Data Visualizations make this quite clear. See https://www.sec.gov/marketstructure/datavis/ma_overview.html#.WwjSbu4vwdU for an example.