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June 12, 2018

Mr. Brent J. Fields
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

Re: **Release No. 34-82873; File No. S7-05-18; Transaction Fee Pilot for NMS Stocks**

Dear Mr. Fields:

T. Rowe Price[1] appreciates the opportunity to provide comments to the U.S. Securities and Exchange Commission ("**SEC**" or "**Commission**") on the proposed Transaction Fee Pilot for NMS stocks (the "**Pilot**")[2] to study the effects that changes to transaction-based fees and rebates may have on order routing behavior, execution quality, and market quality. We enthusiastically agree with the Commission that a pilot is necessary to gather data to facilitate analysis of the impact of fees and rebates on the equities exchanges broadly.

T. Rowe Price, as both an issuer and an investor, strongly supports the concept of the Pilot. As a long-term investor, we have long been an advocate for changes to the maker-taker model because we believe that the avoidance of access fees generates an inherent conflict of interest for brokers, while rebates create unnecessary market complexity and fragmentation. As a large global company listed on NASDAQ and one whose business model relies on a deep understanding of market structure and trading, we are uniquely positioned to provide valuable insights on the proposed Pilot and we offer recommendations below to modify certain aspects of the proposal.

Broker Routing Conflicts

The SEC states that the proposed Pilot is designed to study, among other things, the potential conflicts of interest faced by broker-dealers when routing orders as a result of transaction fees and rebates.[3] Although fees and rebates are inextricably linked and are regarded synonymously by many when referring to broker routing conflicts, we do not feel they play similar roles in such conflicts.

Institutional orders deal with routing conflicts in terms of *fee avoidance* where access fees charged by particular venues inappropriately affect brokers' routing decisions. A common assumption

[1] T. Rowe Price Associates, Inc., a wholly-owned subsidiary of T. Rowe Price Group, Inc. (a publicly traded company), together with its advisory affiliates, had $1.02 trillion of assets under management as of March 31, 2018. We are a global investment management organization, providing a broad array of mutual funds, subadvisory services, and separate account management for individual and institutional investors, retirement plans, and financial intermediaries.

[2] Transaction Fee Pilot for NMS Stocks, Securities Exchange Act Release No. 34-82873 (March 14, 2008), 83 F.R. 13008 (March 26, 2018).

[3] Proposal at 32.

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in the marketplace is that the most liquid exchanges (the maker-taker exchanges) have become the venues of last resort because they impose the highest access fees. The sequence of routing (for a fee sensitive router) usually begins with the broker's own dark pool, Electronic Liquidity Providers (ELPs), other dark pools whose fees tend to be between 5-10 cents per 100 shares, taker-maker markets, and then finally the traditional maker-taker exchanges. While we understand the undesirable role rebates play in keeping exchange transaction fees at their maximum allowable tolerance, rebate acceptance often is a necessary evil that occurs along with positively intended activity by a broker, such as minimizing impact costs or collecting "full spread" (which, consequently means an optimal execution price was achieved for the broker's client). Additionally, as it pertains to broker routing conflicts, policing rebate collection is far easier than attempting to ascertain the opportunity cost lost while avoiding exchange fees.

Retail orders, on the other hand, are susceptible to conflicted routing related to rebates in cases where non-marketable limit orders are generally placed on the exchange that offers the highest rebate to the broker, but show lower execution quality in terms of reduced probability of execution or increased time to execution.

If the ultimate intent of the proposal is to determine whether or not reducing access fees will have an effect on how brokers route their customers' orders, then we fully support the notion of Test Group 2 to see if the incentive to avoid access fees is eliminated with a 5 cents per 100 share cap. Most importantly, it will be interesting to measure if this affects the typical routing sequences described above.

Our concerns around rebates, and therefore the outcomes and affected behavior from Test Group 3, are centered on excessive intermediation (which is especially present in the most liquid traded instruments), complexity, and a market that is skewed sharply toward benefiting short-term intermediaries at the expense of long-term investors.

The Order Protection Rule Needs to be Reviewed

The Commission asks whether one or more of the Test Groups should include an elimination of protected quote status, and thus the order protection requirements of Regulation NMS, for certain securities.[4]

Our answer to that question is a resounding yes. When Commissioners Paul Atkins and Cyndi Glassman issued their dissent to the adoption of Regulation NMS in 2005, they focused principally on the Order Protection Rule (Rule 611).[5] They understood then the distortions Rule 611 would create in market behavior. Combined with the deleterious effects of the maker-taker model, we believe the Order Protection Rule has had a negative effect on the markets, including but not limited to the following:

- Limited competition and innovation
- Made price the singular measure of broker best execution requirements

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[4] Proposal at 63.
[5] https://www.sec.gov/rules/final/34-51808-dissent.pdf.

- Subsidized exchange fragmentation
- Contributed to ATS proliferation
- Caused excessive intermediation
- Magnified broker routing conflicts
- Increased order type complexity
- Undermined price transparency - net trading prices not fully reflected to investors
- Artificially narrowed spread for the most liquid instruments

A ban on rebates or reduction in access fees only addresses some of these issues. In order to fully capture the effects that regulatory incentives have on the market, or to drive genuine competition or innovation, the Commission should remove the Order Protection Rule in Test Group 3. The Commission recognizes the inducement that the Rule creates as it states that "[w]hile the proposed Pilot would reduce or eliminate rebate incentives to transact in those securities on an exchange for certain Test Groups, the proposed Pilot would not impact the ability of an exchange to maintain a 'protected quote,' which may offset the reduced rebate incentive and **continue to serve as an incentive to attract liquidity providers**."[6]

Historically, the Commission has not wanted to have any role in setting exchange transaction fees. However, exchanges have little incentive to reduce the fee cap on their own, despite competitive pressures or increased efficiencies from electronic trading, since regulatory mandated flow is sent to them under the SEC's current framework.

The cap on access fees was a necessity motivated by Rule 611 itself. Adjusting the cap in isolation, and not addressing the principal rule within Reg NMS that has led to these market issues, is equivalent to dealing with the symptoms of a patient, but not their illness directly.
We feel there would be other anticipated benefits to removing the Order Protection Rule, including but not limited to the below:

- Diminishes the likelihood of further exchange fragmentation
- Obviates the need for a fee cap at all
- Provides investors with genuine choice of venue
- Better positions investment advisors and brokers to seek best execution through the consideration of multiple factors, as opposed to being artificially constrained by today's price-centric regime
- Removes the "one-size-fits-all" approach to trade execution and routing so that a multi-tiered model driven by a stocks' liquidity or spread can better thrive.

[6] Proposal at 43 (emphasis added).

While the ultimate intent of Test Group 3 is "natural equilibrium pricing for transaction fees in an environment where all rebates are prohibited and exchanges do not need to charge offsetting transaction fees on the contra-side to subsidize those rebates,"[7] we do not believe that prohibiting rebates alone will remove the perceived or real conflicts on broker routing or materially address the issues identified above.

The Proposed Scope of Securities for the Pilot Should be Narrowed

The top 225 traded names in the Russell 3000 account for over 50% of all traded volume. We feel rebates are distortive and unnecessary, particularly for the most liquid companies and rebates don't *naturally* serve to narrow the quoted spread further than the minimum trading increment in those securities. It is in these most liquid instruments where the Pilot would produce the most effective data. We feel the current construct of the Pilot, which would include 3,000 NMS stocks, is materially skewed towards including small capitalization securities or less liquid issues which already face challenges in attracting liquidity. In contrast, a more tailored Pilot that includes the 225 most heavily traded names, 225 mid-cap stocks, 225 small caps and 225 ETFs would provide statistically significant data without burdening a material portion of the market.

Measurement Criteria

We agree with other commenters that the SEC should take action on two outstanding proposals before proceeding with the Pilot, namely: the disclosure of order handling information and the amendments to Reg ATS. This will help provide the market with additional information regarding changes to order routing, potential conflicts, or incentives programs.

We also suggest including the measurement criteria recommended by the Equity Market Structure Advisory Committee ("**EMSAC**").[8] Those criteria included measuring a range of factors, such as: bid-ask spreads; displayed liquidity and depth of liquidity; volatility; quote stability; hidden liquidity on- and off-exchange; trading volume; order routing behavior; locked/crossed markets; retail and institutional commission pricing; and ATS pricing.

In addition, a proper evaluation of the Pilot would include parent order level impact costs incurred by investment advisers, as well as market quality factors related to transparency, fragmentation and complexity. Given SEC-registered investment advisers' important place in the market as fiduciaries trading on behalf of their clients, the Commission should view advisers' analysis of the Pilot results as a key input.

An Issuer's Perspective

We welcome the opportunity for our stock to be included in the Pilot, with the ultimate goal of improving the overall market to be one where prices can be set by long-term investors without distortion from speculative market participants. T. Rowe Price's stock, on average, trades about 1.5

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[7] Proposal at 55.

[8] SEC Equity Market Structure Advisory Committee Recommendation for an Access Fee Pilot (July 8, 2016), available at: https://www.sec.gov/spotlight/emsac/recommendation-access-fee-pilot.pdf.

million shares daily, with an average displayed size of 200 shares and a spread of nearly $0.07. Only 40% of T. Rowe's average daily volume occurs as displayed on exchange volume. We do not expect that a reduction or outright removal of rebates will have any significant or harmful effects on the quality of prices displayed in the public lit market, interfere with genuine liquidity and price formation, or negatively impact our stock's trading volume, spread or displayed size.

Some will argue that costs to investors will increase as a result of the Pilot, but they fail to recognize that it was informed **investors** that aggressively pushed for changes to access fees caps over the last several years and those same long-term investors are supportive of the Pilot as evidenced by the comment letters submitted. We feel strongly that the benefits of the Pilot will outweigh any of the costs. Finally, we believe that the quality of the results obtained from the proposed Pilot could be negatively impacted if issuers were permitted to opt-out.

Summary

In conclusion, we support the Pilot and applaud the ongoing work of this Commission. We appreciate the opportunity to provide our comments on this matter. We recommend modifying the proposal as suggested above, with a focus on improving market quality and investor experience by reducing complexity, inherent conflicts and confusion in the marketplace. Should you have any questions regarding our letter, please contact the undersigned.

Sincerely,

Mehmet Kinak
Vice President - Global Head of Systematic Trading & Market Structure
[redacted]

Jonathan Siegel
Vice President - Senior Legal Counsel (Legislative & Regulatory Affairs)
[redacted]