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September 30, 2016

Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street NE
Washington DC 20549-1090

RE: Disclosure of Order Handling Information – Proposed Rule
File No. S7-14-16

Dear Mr. Fields:

We appreciate the opportunity to comment on the Securities and Exchange Commission's (the "Commission") above-referenced proposal to require additional disclosures by broker-dealers to customers about the routing of their orders (the "Proposal"). The Capital Group Companies ("Capital Group") is a global asset management firm with offices in Europe, Asia and the Americas. Through our investment management subsidiaries, we actively manage assets in various collective investment vehicles and institutional client separate accounts globally, including the American Funds family of mutual funds. The American Funds are distributed through financial intermediaries and held by individuals and institutions across different types of accounts. As an investment adviser, we have a vested interest in receiving and analyzing the best possible information regarding the orders we place with broker-dealers for the funds and clients we advise in order to be able to provide best execution for those funds and clients.

We would first like to commend the Commission in its continuing efforts to ensure a transparent market where all market participants have fair and equal access to trade information. We strongly support the broad concepts of the Proposal to require additional disclosures by broker-dealers to their customers. We agree with the Commission that "by requiring standardization of such reports, order handling data could potentially be generated in a more efficient and cost-effective manner, and provided as a matter of course to the benefit of all institutional customers" and with the need to expand the current reporting requirements to include institutional orders. We also believe that the suggested reporting requirements under the proposed amended Rule 606 of Regulation NMS will assist us in assessing execution quality and potential information leakage, as well as monitoring potential broker-dealer conflicts of interest in order routing due to market complexity as outlined in the Proposal.

While we are generally supportive of the Proposal, this letter focuses on some modifications that we believe will more effectively amend current Regulation NMS rules to achieve the goals of the Proposal. Specifically, we believe that changes to the definition of an "Institutional" order, the definition of actionable indications of interest, the format and timeframes and categorization of routing strategies should be revised to enhance the ability of those receiving the information to use it in a meaningful way.

Institutional Orders

We believe that the definition of an institutional order should be broad enough to include all (or nearly all) orders placed by an investment adviser with a broker-dealer. The Commission proposes that the distinction between an institutional order and a retail order – and therefore the information received by the adviser – should be based upon the dollar value of the order. The Proposal defines an institutional order as an order to buy or sell a quantity of an NMS stock having a market value of at least $200,000, with orders under this amount defined as retail orders. We think that this definition is too narrow and excludes too many orders from the scope of the rule. Further, we do not believe that this is the most effective method of capturing the information that would be useful to the recipient and would severely limit the usefulness of the Proposal. The Economic Analysis included in the Proposal acknowledges that using this definition would effectively exclude nearly 85% of orders generated by institutional customers as institutional orders.[1] In fact, our own data confirms that a significant percent of orders we send to broker-dealers (approximately 35%) would fall into the Retail category. Although this represents a small percentage of actual traded value, these small orders are an essential aspect of the way we manage our funds and client accounts and the data derived from these trades is needed to effectively analyze our overall trading strategies with a particular broker-dealer.

Therefore, we suggest the better way to separate institutional from retail orders is to use the "Held" and "Not Held" order distinction that is already applicable to the handling of orders by broker-dealers. While we understand the Commission's assessment that implementing the institutional reporting requirements using dollar thresholds may be simpler for broker-dealers, separating order flow into Held (retail) and Not Held (institutional) categories is equally as straightforward for broker-dealers and results in far more useful information to users. It is our belief that this categorization will be more in line with the industry's expectations and better capture the Proposal's spirit and intent in terms of defining 'Institutional' versus 'Retail' orders. This belief is based upon our own trading practices, discussions with other firms in our industry on both the Buy Side and the Sell Side, and examination of existing Rule 606 reports published by broker-dealers.

[1] Proposal – page 202

The overwhelming majority of existing individual investor retail orders are executed as Held[2]. Held orders impose specific regulatory obligations upon the broker-dealer in the way the order is handled, displayed, and executed. Not Held orders are handled differently; they give the broker-dealer certain discretion, within the client's instructions, as to the length of time to execute the order, how the order should be routed, what the execution strategy should be, and many other factors[3]. The usefulness of the data provided isn't dependent on the size of the order as much as the discretion the broker-dealer is given over the routing, display, and execution of the order. It is important for institutional managers to see data on the entire order they place since small decisions can impact the results of the rest of the order due to potential information leakage and other factors. All of our equity order flow, and it is our understanding of the marketplace that nearly all orders executed for Mutual Funds, Institutional Funds, Hedge Funds, and other professional, non-individual account holder type clients, is executed as Not Held. Additionally, categorizing Institutional Orders and Retail Orders according to Not Held and Held would not create any additional burden on broker-dealers as all orders executed by a broker-dealer are already marked as either Held or Not Held. The Commission also recognizes that disclosure of a larger proportion of all orders submitted by institutional customers would result in a negligible increase in costs for broker-dealers because their systems would already be in place for these reporting purposes.[4]

At a minimum, regardless of how orders may be defined for aggregated reporting purposes, we would encourage the Commission to ensure that for the customer-specific reports under proposed Rule 606(b), the inclusion of *all* of the customers' orders. There should be no constraints on the broker-dealer to know who their customers are and include all of their orders in these reports.

Actionable Indication of Interest

Certain clarifications of the definition of 'actionable indication of interest' ("Actionable IOI") would increase the usefulness of information provided under the Proposal. The Commission has captured all the necessary elements - symbol, side, quantity, and price - for the definition of an Actionable IOI. However, the definitions provided for two of those elements - quantity and price – would benefit by expanding them to include relative measures in addition to the absolute measures provided in the Proposal. For example, the definition of Actionable IOI should allow for the inclusion of the following scenarios as long as the indication is at prices equal to or better than the National Best Bid and Offer (NBBO), (i) the quantity for an

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[2] SEC Rule 606 Quarterly Report for the Quarter Ending June 30, 2016 for Fidelity Brokerage Services LLC states that 90% of orders in NYSE listed securities were Market Held or Limit Held orders (https://nationalfinancial.fidelity.com/app/literature/item/948454.html?token=0VH7M3V1I6TX0Q9078LGWNFUJRHF8YOX). SEC Rule 606 Quarterly Report for the Quarter Ending June 30, 2016 for Charles Schwab states that 95% of orders in NYSE listed securities were Market Held or Limit Held orders (http://www.schwab.com/public/schwab/nn/legal_compliance/important_notices/order_routing.html).

[3] NASD Notice to members 97-57, NASD Interpretations of SEC Order Handling Rules, NASD Limit Order Protection Rules, And Member Best Execution Responsibilities. Notice to members September 1997, pgs 460-461.

[4] Proposal – page 203-204

indication of interest is stated as '3 times the current displayed Best Bid Size' or (ii) the price for an indication of interest is stated as 'equal to the current Bid plus 0.1 cents'. We believe this definition would allow institutional customers to assess the impact that Actionable IOI's might have on information leakage as it pertains to a broker-dealer's handling of the customer's orders.

Report Format & Timeframes

The comments below are specifically related to certain requests set forth by the Commission related to the proposed report format and timeframes:

- We believe that it is appropriate to view the firm placing the order as the customer under the proposed amendments to Rule 606(b)(3). Firms, including investment advisors, have best execution and other obligations for which this data will become part of the evaluation process. However, distributing the reports generated by broker-dealers pursuant to the proposed amendments directly to an underlying client seems overly complicated, burdensome, and potentially misleading.

- We strongly support the Commission's proposal to make this data available in an XML format. One of the biggest hurdles in examining the type of data proposed to be provided across broker-dealers is being able to house all of the data in a single database. Having this data presented in a consistent, machine readable format will make this process much easier to build.

- We believe that seven business days is a reasonable amount of time for a broker-dealer to respond to a request for data from a client. The broker-deal could also make a client's data available via the internet for those broker-dealers with client specific web portals.

- We do not see a reason why the proposed rules should not apply to all broker-dealers, with no minimum threshold. Conceivably, those broker-dealers that would qualify for an exemption under any reasonable threshold would be firms that have very close relationships with a very small number of clients or a very boutique business. If a small broker-dealer is able to effectively manage institutional orders in the currently complex market environment, they should be able to provide customers with information on their order routing practices.

- As stated above, we believe that in order for these reports to be effective it is essential that the required disclosure include the handling of all smaller (child) orders derived from the institutional order.

- A period of six months is a reasonable timeframe for broker-dealers to make historical data available; however, we would suggest that historical data be retained at the broker-dealer for a longer time span of 2 years. While we expect firms to be diligent in collecting data from their counterparties, gaps may occasionally occur which require this longer dated data. We understand that there is an associated cost for the broker-dealers to store this information for a longer period of time, but we expect the benefits to the industry to outweigh these incremental costs.

- We believe that broker-dealers should be required to provide the proposed data on a weekly basis if requested by the customer. This frequency of data will prove to be most useful by firms, particularly if the data is required to be provided in XML format. Nevertheless, the timeframe for providing aggregated data should be no longer than monthly. The Commission correctly states that changes in fee structures at trading centers may affect a broker-dealer's routing decisions and that these fee changes mostly take place at the beginning of the month. However, the fee change is sometimes related to the activity in the prior calendar month. Broker-dealers have an incentive to meet certain targeted volume tiers that will change the amount paid to transact for an entire period. These adjustments are typically made mid-month. Having the monthly data will allow for a customer to monitor for such changes in order routing behavior.

- We are also supportive of providing the individual customer data on a stock by stock basis. Stocks with different liquidity profiles behave in different ways. Many broker-dealers state that their order router takes current market considerations at the individual stock level into account when making routing decisions. Having individual stock data for a period will assist the customer in assessing the validity of these statements.

- Finally, we do not believe that customers will able to reverse engineer the way a smart order router works or discern any other proprietary information about the broker's technology or order handling techniques from the proposed disclosure information. To do so would require specific information about individual broker-dealer orders sent to the trading centers (child orders) including the microsecond timestamps on the orders sent, the execution instructions on the orders, and the details of the individual fills from the trading centers; information that will not be disseminated under the Proposal.

Order Routing Strategies

To evaluate the effectiveness of a broker dealer's order routing strategy it is necessary to understand the intent of the routing instruction in comparison to the results. The Proposal suggests this analysis could be enhanced by categorizing parent order strategies into passive neutral and aggressive categories. It is extremely difficult to classify a client's orders as either passive, neutral, or aggressive. We believe the proposal requirement for broker dealers to self-report their strategies into these buckets is too subjective and will not promote true apples to apples comparisons across brokers.

As an example, take two orders sent to a broker-dealer algorithm using a strategy designed to execute versus a volumes weighted average price benchmark (a VWAP algorithm). Both orders are in the same security and for the same number of shares, with the only difference between the two orders being the timeframe for execution. The first order has 3 hours over which to execute and the second order is instructed to execute the same quantity over 15 minutes. A reasonable interpretation given the Proposal is that the first order would be a 'passive order routing strategy' while the second would be an 'aggressive order routing strategy' based on the differing time constraints. However, in the current proposal the VWAP strategy itself would be assigned to a single category by the broker-dealer.

Furthermore, some broker strategies are intended to be dynamic and change aggressiveness depending on changing micro market conditions. We believe that this complexity makes the existing categorizations problematic and that many similar orders will be characterized quite differently among different broker-dealers.

We propose that, instead of categorizing the entire client order subjectively, the categorization be based on each child order being sent for execution. The broker-dealer order routers employ different strategies when providing and taking liquidity form the market place. Each child order is already identified as intending to post or remove liquidity from the routed venue. Using this as the basis for classification would allow for objective analysis as to the effectiveness of the routing strategy based on the fills received. The order router will use different venues based on this intent, and the decision is based on any number of factors that the broker expects will affect the execution and also importantly the cost to the broker-dealer for effecting the transaction. Given the current maker/taker prices prevalent at market centers, brokers have strong incentive to route for orders taking and providing liquidity differently for economic reasons.

Report Fields and Routing Information

We agree with the overall format and fields set forth in the Proposal, but would suggest some additional fields to provide more useful information. In addition to the 'Average Order Size Routed' and 'Average Fill Size' fields, we propose that the Commission call for a 'Median Order Size Routed' and 'Median Fill Size' field. Having both average and median numbers provides a more complete picture of the size of the orders routed to a venue. A field with the average difference between order entry time and first execution time with a millisecond accuracy should also be required. This will provide detailed information about how long it takes to route orders to market centers.

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We applaud the ongoing work of the Commission and its continuing efforts to provide a fair, transparent, and well regulated marketplace. We believe that the Proposal is another big step in the right direction for the market. Presenting aggregated, standardized order handling information to clients and making public, aggregated information across all orders is extremely beneficial to our firm and the broad investing community.

We truly appreciate the opportunity to comment on the Proposal. If you have any questions regarding our comments, please feel free to contact Matt Lyons at [redacted].

Sincerely,

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