



October 30, 2018

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

Re: **Proposed Rule on Disclosure of Order Handling Information; File Number S7-14-16**

Dear Mr. Fields:

Charles Schwab & Co., Inc. (“Schwab”)¹ appreciates this opportunity to provide a brief follow up to our original comment letter² we submitted approximately two years ago on the proposed rule to amend Rules 600 and 606 of Regulation National Market System under the Securities and Exchange Act of 1934 to require additional disclosures by broker-dealers to customers about the routing of their orders. The purpose of this follow-up letter is to provide more clarity regarding Schwab’s views on how the proposed rule would define “institutional” orders³.

¹ Charles Schwab & Co., Inc. (member SIPC), is the broker-dealer affiliate of The Charles Schwab Corporation (NYSE: SCHW), a leading provider of financial services, with more than 350 offices and 11.4 million active brokerage accounts, 1.6 million corporate retirement plan participants, 1.3 million banking accounts, and \$3.56 trillion in client assets as of September 30, 2018. Through its operating subsidiaries, the company provides a full range of wealth management, securities brokerage, banking, money management, custody, and financial advisory services to individual investors and independent investment advisors. Its broker-dealer subsidiary and affiliates offer a complete range of investment services and products including an extensive selection of mutual funds; financial planning and investment advice; retirement plan and equity compensation plan services; referrals to independent fee-based investment advisors; and custodial, operational and trading support for independent, fee-based investment advisors through Schwab Advisor Services. Its banking subsidiary, Charles Schwab Bank (member FDIC and an Equal Housing Lender), provides banking and lending services and products. More information is available at www.schwab.com and www.aboutschwab.com.

² <https://www.sec.gov/comments/s7-14-16/s71416-27.pdf>

³ Page 50 of the proposed rule.

Proposed Institutional Order Definition

As we stated in our original comment letter, one of our primary concerns with the proposal is with its definition of institutional versus retail orders. Based on our experience, the proposed definition for an institutional order as one with an original market value of at least \$200,000 does not accurately reflect reality. Retail orders routinely breach this market value, and attempting to delineate between retail and institutional orders with an arbitrary number does not seem to be appropriate.

As stated previously, we support an alternative to the proposed definition. Schwab has suggested that the definition should be based off of “held” versus “not held” order flow, with “held” order flow defined as “retail” and “not held” order flow defined as “institutional”. We support this alternative methodology because there are completely different technologies used, with differing processes for executing, over dissimilar timelines, and with vastly different customer expectations, when comparing held versus not held orders. As we explained in our original letter, while not held, or institutional order flow, employs algorithms over longer periods of time to process orders, held, or retail order flow, typically is seeking immediate access to liquidity.

While we continue to support the held versus not held methodology for defining an institutional order, previously we had suggested that since a small percentage of retail customers occasionally send not held orders, firms with only a *de minimis* amount of not held orders should be exempt from the new disclosure rules that are proposed for institutional orders, as to avoid capturing occasional retail activity within the institutional reporting regime. The purpose of this additional comment letter is to define more specifically which firms should be subject to the institutional definition.

From Schwab’s perspective, the *de minimis* level should be set at five percent of orders received. Under this parameter, firms with more than five percent of their orders being classified as not held would be considered institutional. In settling on this definition, we considered alternative measurements, including executed volume and shares received. For a variety of reasons, however, we believe that orders received should be the measure. For one, large rebalancing trades that our broker-dealer sometimes needs to process on behalf of an affiliated automated investment advisor could theoretically push our firm’s volume numbers up above a *de minimis* amount and inappropriately designate our firm as institutional if volume was used as a delineator. In addition, in regulatory exams, previous inquiries in this area have always been based on orders received. So reflective of the characteristics of our business and historical regulatory inquiries in this area, we believe the *de minimis* level above which a firm would be considered institutional should be set at a threshold of not held orders being at least five percent of orders received.

Thank you for your consideration of this update to our views on the proposed order handling disclosure rules. As always, we stand ready to provide additional input on these and other issues, either in person or over the phone, if members of the Commission or its staff are interested in further discussion with us. I can be reached by phone at [REDACTED] or by email at [REDACTED].

Sincerely,

A handwritten signature in black ink, appearing to read "Jeff Brown". The signature is fluid and cursive, with the first name "Jeff" being more prominent than the last name "Brown".

Jeff Brown
Senior Vice President
Legislative and Regulatory Affairs
Charles Schwab & Co., Inc.

cc: Brett Redfearn, Director
Division of Trading and Markets