

BLACKROCK®

September 26, 2016

Submitted via electronic filing: <https://www.sec.gov/rules/proposed.shtml>

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

Re: Disclosure of Order Handling Information (File No. S7-14-16)

Dear Mr. Fields:

This letter responds to the request of the Securities and Exchange Commission (“Commission”) for comment on the proposed amendments to Rule 606 under Regulation National Market System (“Regulation NMS”) of the Securities Exchange Act of 1934 (“Exchange Act”) to require broker-dealers to disclose information regarding the handling of institutional orders and to increase the information required to be disclosed regarding retail orders (“Proposal”).¹

BlackRock, Inc. (together with its affiliates, “BlackRock”)² strongly supports the Commission’s efforts to improve transparency in the equity market by enhancing investor access to information about the order handling practices of broker-dealers. We believe that institutional investors would benefit from greater standardization and accessibility of this data, which will lead to more fulsome discussion between brokers and their customers regarding routing practices.

We agree with the Investment Company Institute (“ICI”) that the Proposal would afford institutional investors greater visibility into how broker-dealers route and execute their orders and improve the ability of funds and other institutional investors to evaluate broker and venue performance.³ To this end, we articulate our support for enhancements to the disclosures which will further their efficacy.

A primary objective of the Proposal is to furnish investors with the information which they require “so that the institutional customer can more effectively assess the impact of order routing decisions on the quality of their executions.”⁴

¹ SEC, Disclosure of Order Handling Information, 81 Fed. Reg. (July 27, 2016), available at <https://www.gpo.gov/fdsys/pkg/FR-2016-07-27/pdf/2016-16967.pdf> (“Proposal”).

² BlackRock is one of the world’s leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers, and other financial institutions, as well as individuals around the world.

³ ICI, Comment Letter, SEC – Disclosure of Order Handling Information (Sep. 26, 2016), available at https://www.ici.org/pdf/16_ici_sec_order_routing_ltr.pdf.

⁴ Proposal at 49434.

In order to meet this goal, the new disclosures should

- Accurately differentiate institutional orders from other activity.
- Focus on information pertinent to the routing decisions.
- Include metrics which can be used to assess execution quality.

The definition of Institutional Order in Rule 606(b)(31) should be modified to more comprehensively capture all activity from institutional investors.⁵ Thresholds which are based on order size or dollar value are fallible and likely to exclude a substantial number of small orders or disadvantage smaller institutional customers. A better alternative for distinguishing customer activity may be the use of held vs. not-held orders.⁶

Order handling information should not be categorized according to arbitrary definitions of trading strategy or algorithm, but rather by the manner in which a broker-dealer interacts with the market or displayed quote. When a broker routes orders to a trading venue, it is typically with the intent to (i) execute immediately by crossing the spread, (ii) visibly rest a limit order on a venue, or (iii) access liquidity in a non-displayed fashion. These categories would provide more objective definitions of trading tactics which can be used to assess routing decisions.

Institutional order routing disclosures should include meaningful measures of execution quality. It is not possible to holistically evaluate order handling without dimensions which can be used to compare the routing performance of different brokers. This is a current failing of existing Rule 605/606 reporting as aggregate trading center metrics do not provide sufficient insight regarding a broker's experience at that venue.⁷ Furthermore, execution quality measures are needed in order to properly assess trade execution against the conflicts which may be posed by routing inducements, such as fees and rebates. As such, we think that the execution quality metrics recommended by ICI would provide more meaningful information for investors than the Proposal currently does.

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⁵ As proposed, an *Institutional order* means an order to buy or sell an NMS stock that is not for the account of a broker or dealer and is an order for a quantity of an NMS stock having a market value of at least \$200,000.

⁶ Held orders are orders which do not allow a broker any discretion and which must be executed immediately. Not-held orders are orders which give a broker both time and price discretion to achieve the best price possible. Held orders are typically submitted by non-institutional investors.

⁷ Bill Alpert, Barron's, "Exclusive: Who Makes Money on Your Stock Trades" (Feb. 28, 2015), available at <http://www.barrons.com/articles/exclusive-who-makes-money-on-your-stock-trades-1425103695>.

We thank the Commission for providing BlackRock the opportunity to express our support for the Commission's proposed rule change. Please contact the undersigned if you have any questions or comments regarding BlackRock's views.

Sincerely,

Richie Prager
Senior Managing Director, Head of Trading, Liquidity & Investments Platform

Hubert De Jesus
Managing Director, Co-Head of Market Structure & Electronic Trading

Supurna VedBrat
Managing Director, Co-Head of Market Structure & Electronic Trading

Joanne Medero
Managing Director, Government Relations & Public Policy

cc:

The Honorable Mary Jo White
Chair
Securities and Exchange Commission

The Honorable Michael S. Piwowar
Commissioner
Securities and Exchange Commission

The Honorable Kara M. Stein
Commissioner
Securities and Exchange Commission

Stephen Luparello
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