STATE STREET GLOBAL ADVISORS

March 30, 2023

Nathaniel N. Evarts
Managing Director
Head of Trading, Americas

Kimberly Russell
Market Structure Specialist
Global SPDR Business

State Street Global Advisors
1 Iron Street
Boston, MA 02210
USA

Vanessa A. Countryman
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Submitted via email: rule-comments@sec.gov

Re: File No. S7-29-22; Release No. 34-96493; Disclosure of Order Execution Information ("Rule 605")

File No. S7-30-22; Release No. 34-96494; Regulation NMS: Minimum Pricing Increments, Access Fees, and Transparency of Better Priced Orders;

File No. S7-31-22; Release No. 34-96495; Order Competition Rule;

File No. S7-32-22; Release No. 34-96496; Regulation Best Execution

Dear Ms. Countryman:

State Street Global Advisors, the investment management arm of State Street Corporation[1], appreciates the opportunity to comment on the Securities and Exchange Commission's ("Commission") December 14, 2022 proposals relating to the structure of the US equity market.

State Street Global Advisors is the world's fourth-largest asset manager and sponsor of the well-recognized SPDR® family of exchange-traded funds ("ETFs").[2] We appreciate the Commission's focus on individual investors and ways to enhance the competitive landscape for retail order flow. Our comments are focused on the individual investor, including those that invest today in our ETFs.

There are, in our view, certain ideas for reform of the equity market that would benefit investors. Most notably, improved execution quality reporting would give investors better tools to evaluate different broker-dealers based on execution quality. We are concerned, however, that the Commission has proposed, all at once, multiple significant changes to the structure of the equity market that would have uncertain

[1] Headquartered in Boston, Massachusetts, State Street Corporation is a global custodian bank which specializes in the provision of financial services to institutional investor clients. This includes the provision of investment servicing, investment management, data and analytics, and investment research and trading. With $36.743 trillion in assets under custody and/or administration and $3.481 trillion in assets under management as of December 31, 2022, State Street operates in more than 100 markets globally.
[2] As of December 31, 2022.

cumulative impacts and therefore present significant risk of unintended consequences. To that end, we recommend that the Commission pursue an incremental, pragmatic, and data-driven approach to modernizing the equity market.

In this letter, we offer specific comments on each of the four proposals issued by the Commission.[3] In summary:

- **Order Execution Information (Rule 605):** We support enhancing execution quality disclosures. Not only would this give investors better and more useful information to help in their broker selection and management process, but it would also help measure the impacts of further potential market structure changes on investors.
- **Minimum Pricing Increments, Access Fees, and Round Lots:** We recommend a more cautious and gradual approach to these components of reform that would allow for measurement and review of discrete changes while mitigating the risks of adverse effects.
- **Order Competition (Retail Auctions):** We recommend not moving forward with this proposal due to the risks of unintended consequences for investors, and instead examine other ways to achieve the Commission's goals of enhancing competition for retail order flow.
- **Best Execution:** We support a principles-based best execution framework that mirrors the Financial Industry Regulatory Authority's ("FINRA") existing best execution rule.

Disclosure of Order Execution Information (Rule 605)

State Street Global Advisors broadly supports this proposal. Modernizing Rule 605 execution quality disclosures would provide useful information for investors that could help them in selecting and managing broker-dealers for trade execution. Moreover, the enhanced reports could provide useful metrics for measuring and assessing the results of further potential changes to market structure.

Before adopting any other such changes, we recommend the Commission:

- *Finalize Rule 605, incorporating technical feedback provided by market participants, and allow time to study how enhanced transparency may impact retail order routing and execution; and*
- *Have FINRA or the Consolidated Audit Trail ("CAT") produce Rule 605 reports on behalf of broker-dealers, to reduce the compliance burden, ensure standardization, and provide a central place where Rule 605 reports could be accessed.*

[3] State Street Global Advisors also submitted comments on the four proposals to the Commission in a joint industry letter with Cboe Global Markets, T. Rowe Price, UBS Securities LLC, and Virtu Financial, Inc. (the "Joint Industry Letter").

Regulation NMS: Minimum Pricing Increments, Access Fees and Transparency of Better Priced Orders

While we appreciate the Commission's review of these aspects of market structure, we are concerned about the unintended consequences of adopting all of these changes at once. Each of these significant market structure reforms can impact liquidity and the investor experience by changing the incentives for quoting on exchanges, as well as adding complexity, operational risk, and costs to market participants. It is therefore imperative to take a measured approach to changing these elements of the equity market structure, to understand the impacts, ensure that costs are justified, and avoid negative consequences for investors.

Transparency of Better Priced Orders

We support the round and odd lot changes that were adopted in the Market Data Infrastructure Rule[4]. However, these changes could have unintended impacts on price discovery, routing complexity, and trading costs. Therefore, we recommend:

- *Implementing the proposed round and odd lot changes after implementing Rule 605 amendments, then pausing to assess the effects on liquidity and execution quality and relevant cost/benefit considerations of any additional changes.*

Minimum Quoting Increments

Reducing the minimum quoting increments for "tick-constrained" securities could reduce costs for investors through tighter bid-ask spreads. Smaller quoting increments, however, will change quoting behaviors – which in some cases may present challenges, including reduced displayed size at each price level, greater volatility, flickering quotes, and sub-penny jumping. Additionally, we are concerned that the daunting task of monitoring, updating, and managing this process as proposed by the Commission across market participants and NMS stocks would add significant new operational risk to our markets.

We recommend:

- *In lieu of introducing three new sub-penny tick sizes (including the narrow $0.001 and $0.002 pricing increments), implementing a half-penny tick size ($0.005) for a subset of symbols that are "tick-constrained" using a conservative industry-agreed definition;*[5]
- *Designing a framework to measure success, then selecting a smaller pilot universe (e.g., 25-30 such symbols) to measure and assess the results of a half-penny trading increment before considering further expansion. This approach*

[4] File No. S7-03-20; Release No 34-90610; Market Data Infrastructure.

[5] In our Joint Industry Letter, we recommended defining tick constrained symbols through an objective, multi-factor approach that considers quoted spreads and displayed liquidity, similar to that recently suggested by Cboe, rather than applying tick reform to an expansive universe of securities.

would allow time for measuring the effects and would help mitigate possible unintended consequences; and

- *Periodically reviewing and calibrating the parameters that define "tick-constrained" symbols to keep pace with changing market conditions.*

Minimum Trading Increments

Applying a minimum trading increment could inadvertently increase investor trading costs. Today, market centers can facilitate sub-penny price improvement when there is matchable trading interest within the bid-ask spread. Under the proposed rule, without having the option to execute within the minimum quoting increment aside from limited exceptions, investors may incur greater execution costs as a result.

To the extent that the Commission believes that it is nevertheless desirable to pursue a minimum trading increment, we believe, as others have suggested, the minimum trading increment could be different from the minimum quoting increment.

We recommend:

- *Retaining the ability for market participants to obtain sub-penny price improvement on executions; and*
- *Further exploring alternatives for promoting competition for retail order flow, including examining regulatory or systematic barriers that may have limited the success of exchange-sponsored programs.*

Access Fees

We support examining changes to the access fee cap set by Regulation NMS, but we are concerned that wholesale reductions, particularly when combined with other changes, such as smaller quoting increments or mandatory retail auctions, will disincentivize liquidity provision, reduce market maker support, widen bid-ask spreads, and increase volatility in thinly-traded securities. Moreover, changing the access fee cap simultaneously with other changes will make it difficult to pinpoint the source of any beneficial or detrimental effects of any particular change.

As an ETF provider, we appreciate the market quality programs that exchanges operate for investors. These programs use transaction-based rebates to incentivize liquidity providers to display competitive quoted prices and sizes. Reducing the access fee cap would potentially lead to rebate reductions, resulting in wider bid-ask spreads and less quoted size, potentially increasing investor trading costs. These potential impacts extend to corporate stocks as well. Several exchanges use transaction-based rebates to incentivize liquidity providers to display quotations in corporate stocks, so that changes to access fees, if poorly designed, could impact the cost of capital.

We recommend:

- *Conducting empirical tests to examine whether a reduction in the access fee cap is beneficial to competition and liquidity in the market. These tests should start by focusing on a small sample of actively-traded, tick-constrained securities to determine whether to further extend the analysis; and*
- *Implementing any changes to access fee caps before changing quoting increments, to isolate and evaluate the effects. This includes examining whether reducing the access fee cap may affect a security's designation as "tick-constrained."*

Proposed Order Competition Rule

We appreciate the Commission's goal of promoting greater competition in the equity market. In theory, the proposed retail auctions may expand the opportunities for a wider range of investors to interact directly with retail orders. However, prescribing how retail orders should be routed in relation to these auctions would introduce considerable operational risks and costs that may outweigh any benefits.

For retail investors, the execution quality they receive could deteriorate in less actively traded securities in the event that liquidity providers opt not to support all securities in the auctions. This could result in more liquidity gaps, volatility halts, and poor execution outcomes. We also worry that directing orders into these auctions without addressing exchange limits on liability exposes retail investors to unnecessary risks. Any issues that arise from this proposed framework would run the risk of hurting investor confidence and capital formation in our markets.

We recommend:

- *Instead of moving forward with the proposed order competition rule, we encourage the Commission to engage with industry participants (e.g., through a roundtable discussion or concept release) on potential alternatives to best support market-driven solutions for the interaction of orders from a wider range of market participants.*

Proposed Best Execution Rule

State Street Global Advisors supports the goals of improving execution for individual investors. We are concerned, however, that the proposed rule's prescriptive approach to best execution (*i.e.*, the singular focus on price without adequately weighing other factors) would have the opposite effect, particularly for larger orders. FINRA's best execution rules and related guidance are principles-based and outline factors for consideration in addition to price, giving broker-dealers flexibility in how they architect their best execution policies and procedures. This allows firms to make necessary adjustments as market structures evolve and enables them to compete based on execution quality provided to clients.

We are also concerned that the overlap of different best execution standards from the Commission, FINRA and other self-regulatory organizations ("SROs") would add unnecessary costs and complexities for market participants, potentially weighing heavily on smaller broker-dealers. Since the existing best execution standards already ensure a high level of investor protection, these costs would have no clear benefit. Instead, by focusing resources on managing compliance with overlapping standards, these requirements may reduce the ability of broker-dealers to invest in technology, products, or services that could more effectively improve execution results for clients.

We recommend:

- *Coordinating with the SROs to ensure the adoption and implementation of a consistent best execution standard; and*
- *Mirroring the principles-based approach and factors of consideration in FINRA's best execution standard.*

* * * * *

Thank you again for the opportunity to offer our thoughts on the proposed rules for the reform of our equity market. Please feel free to contact Rob McKeon (ramckeon@statestreet.com) in State Street's department of Regulatory, Industry and Government Affairs should you wish to discuss the contents of this submission in greater detail.

Sincerely,

Nathaniel N. Evarts
Managing Director, Head of Trading, Americas
State Street Global Advisors

Kimberly J Russell

Kimberly Russell
Market Structure Specialist, Global SPDR Business
State Street Global Advisors