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VIA ELECTRONIC SUBMISSION

March 31, 2023

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

Re: Disclosure of Order Execution Information *(File No. S7-29-22)*

Regulation NMS: Minimum Pricing Increments, Access Fees, and Transparency of Better Priced Orders (File No. S7-30-22)

Order Competition Rule (File No. S7-31-22)

Regulation Best Execution (File No. S7-32-22)

Dear Ms. Countryman:

We appreciate the opportunity to comment on the Securities and Exchange Commission's (the "Commission") above-referenced rule proposals[1] (the "Proposals") relating to U.S. equity market structure. The Capital Group Companies is one of the oldest asset managers in the United States. Through our investment management subsidiaries, we actively manage assets in various collective investment vehicles and institutional client separate accounts globally. The majority of these assets consist of the American Funds family of mutual funds, which are U.S. regulated investment companies managed by Capital Research and Management Company, distributed through financial intermediaries and held

[1] *Disclosure of Order Execution Information*, Release No. 34-96493; File No. *S7-29-22* (December 14, 2022) ("Transparency Proposal"); *Regulation NMS: Minimum Pricing Increments, Access Fees, and Transparency of Better Priced Orders,* Release No. 34-96494; File No. S7-30-22 (December 14, 2022) ("Reg NMS Proposal"); *Order Competition Rule,* Release No. 34-96495; File No. S7-31-22 (December 14, 2022) ("Order Competition Proposal"); *Regulation Best Execution,* Release No. 34-96496; File No. S7-32-22 (December 14, 2022) ("Best Execution Proposal").

by individuals and institutions across different types of accounts. Although we fall into the category of "institutional investor," the mutual funds, ETFs, collective investment trusts (CITs), separately managed accounts (SMAs), and other collective investment vehicles and accounts we manage mainly serve as investment vehicles for retail investors saving for retirement, college, and other financial goals. There are more than 25 million individual accounts invested in the American Funds mutual funds alone. Our focus is on improving those people's lives through successful investing.

We would first like to commend the Commission on its efforts to evaluate and improve equity trade execution and market quality for investors. Capital Group has long been a strong advocate for equity market structure improvements.[2] While we agree with the intent of the Proposals, we are concerned with the amount of complexity that would be introduced into the equity markets if all four Proposals are implemented together and as proposed. We believe that the potential negative impacts to all investors of adopting all four Proposals outweigh the potential benefits to retail investors. A more measured approach to adoption of the Proposals, and more moderated adoption of portions of certain Proposals, would allow the Commission to study the effects of each Proposal on our equity markets. We submit that the Commission may even find that the implementation of some subset of the Proposals will render certain Proposals (e.g., the Order Competition Proposal) unnecessary to accomplish the stated goals of the Proposals in total. We are also concerned with the Proposals' emphasis on retail order flow without adequate consideration of the Proposals' impacts on overall market structure and institutional order flow, much of which serves retail investors. By focusing on incrementally improving retail pricing, the Proposals could create

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[2] Letter from Matt Lyons, former Senior Vice President and Global Trading Manager of The Capital Group and Peter Stutsman, Senior Vice President and former U.S. Regional Equity Trading Manager (current Global Head of Equity Trading) of The Capital Group, to Brent J. Fields, Secretary, Commission (May 30, 2018), available at https://www.sec.gov/comments/s7-05-18/s70518-3732662-162505.pdf; Statement of Matt Lyons, former Senior Vice President and Global Trading Manager of The Capital Group, before the U.S. House of Representatives Committee on Financial Services on U.S. Equity Market Structure: A Review of the Evolution of Today's Equity Market Structure and How We Got Here (June 27, 2017), available at https://financialservices.house.gov/uploadedfiles/hhrg-115-ba16-wstate- mlyons-20170627.pdf; EMSAC – Presentation on Maker Taker Pricing, Matt Lyons (October 27, 2015), available at https://www.sec.gov/spotlight/capital-group-presentation-matt-lyons-emsac.pdf; and Letter from Timothy D. Armour, Chairman of The Capital Group Companies, to Brent J. Fields, Secretary, Commission (September 29, 2015), available at https://www.sec.gov/comments/10-222/10222-2.pdf.

thinner markets, flickering quotes and worse execution quality for institutional investors, particularly in less liquid securities. While markets with tight spreads are important to execution quality, it is equally important to have markets with deep, stable quotes.

We generally agree with the comments submitted by the Investment Company Institute, and we write to share our views on the key issues discussed below. We are supportive of the Transparency Proposal and believe that an initial implementation of the Transparency Proposal, together with a modified Reg NMS Proposal, would allow the Commission time to study the impacts of those modifications on markets. We are also supportive of the Commission's efforts around Best Execution but believe that the Best Execution Proposal should consider the impacts of other Proposals on equity markets. Further, any best execution obligation needs to be harmonized with current best execution obligations, including considerations of factors other than the immediate price of execution.

A. Reg NMS Proposal

We are supportive of the intended goals of the Reg NMS Proposal. However, we have concerns with the prescriptive nature of the Proposal and the complexity and unintended consequences that may result from full implementation.

While we recognize that there is no magic behind a uniform tick size of a penny, introducing a complex and multi-tiered tick regime creates increased risk of institutional orders getting 'pennied' by high frequency type traders stepping in front of larger institutional orders at inconsequential value. We support the concept of different quoting increments for different categories of securities in an effort to create deep liquidity. Robust top of book liquidity is important to institutional investors, and we have concerns that in a narrower tick regime liquidity will simply get spread across the new increments. We propose introducing a single smaller quote increment of $0.005 for tick constrained stocks and support investigating a wider quote increment for certain stocks with wider bid ask spreads (e.g., $0.02 or $0.05). Incorporating a quote that decreases the current increment by ½ constitutes a significant alteration to existing practice, and the effects of this change can only be known once it is implemented. We believe that this measured approach would give the Commission the ability to study these impacts and assess whether smaller quoting increments would add additional benefits without having additional, potentially materially negative, impacts on equity markets. We believe that a conservative, transparent and easily implementable definition of a tick constrained stock would also give the Commission the ability to roll this new tick regime out in measured fashion. We support the Cboe's position on the definition of a tick constrained stock but think that proposals from multiple other market participants are viable as well. We also support requiring off-exchange transaction prices to occur at valid quote ticks with exemptions for mid-point and reference price transactions.

We have long supported the Commission addressing the conflict faced by brokers related to incentives created by access fees and rebates in the maker/taker model. We continue this support of the concept and the Commission's proposal to lower access fees. We believe that a simple reduction of access fees across all venues to $0.001 would go a long way in mitigating order routing conflicts and give the Commission the ability to study this area to see if there are further measures to take in this area in the future.

B. <u>Best Execution Proposal</u>

We support the Commission's ability to impose a best execution standard. However, we have concerns with the Best Execution Proposal's focus on price to the exclusion of other factors and what appears to be a distinct standard from that currently imposed by FINRA rules and guidance.

As a large institutional investor, we are far more focused on the overall average execution price of the larger investment decision than on the price of any individual market execution (the median of which is 100 shares). We believe that the current best execution standard imposed by FINRA rules and guidance, and the factors thereunder, provide executing brokers the right incentives and flexibility to consider the impact of individual executions on the larger order. The Best Execution Proposal's focus solely on price would create trading incentives for brokers' smaller order routing decisions that could have adverse impacts on the price of larger, overall orders. We also believe that any best execution standard should be harmonized across regulators, so that firms have clear accountability and consistent policies and procedures. Creating an environment where firms must comply with different standards for the same set of transactions will cause complexity and confusion.

C. <u>Order Competition Proposal</u>

While we support the intent to create more order-by-order competition and interaction between retail and institutional orders, we believe the proposed auction mechanism should not be implemented simultaneously with the other proposed rules. The proposed auction mechanism is complex. The U.S. equity market structure is already the most complex in the world, and we would find it easier to support a remedy that reduced, rather than added to, the complexity.

Several of our broker counterparties provide Capital Group with access to their retail order flow. It is our experience that this flow provides limited natural matching opportunities. Retail trading is more concentrated in individual names, low priced stocks, and small cap companies than institutional order flow. Additionally, we think the proposed auction mechanism could have unintended consequences that actually increase the volatility of lower liquidity stocks and reduce price improvement for retail investors.

The proposed changes to the quote size and trade price increments will likely change the dynamics of the wholesaling market. We think a better course would be to make those changes first, study the effects of those changes, and then determine if this auction mechanism or some other change would better suit the Commission's goal of increasing order-by-order competition.

D. <u>Implementation</u>

We encourage the Commission to take a measured approach to the adoption and implementation of the Proposals. We appreciate the Commission's efforts to improve the U.S. equity market structure but have concerns about the implementation of multiple material changes at the same time. Market participants and equity market structure generally will benefit from understanding the impact of certain Proposals before adopting and implementing others. To this end, we believe that the Commission and equity markets would be best served by staggering the implementation of the Proposals. By implementing the Transparency Proposal and a modified Reg NMS Proposal first, followed by a study of the impacts of those Proposals and then implementing a Best Execution standard informed by those impacts, we believe that the Commission will best accomplish the goals set out in the Proposals. Further, market participants also require the ability to implement each of these

Proposals and would benefit from understanding the impacts of the Transparency Proposal and a modified Reg NMS Proposal before implementing revised best execution policies and procedures. As noted above, this sequencing will then better inform the Commission on the necessity or direction of the Order Competition Proposal.

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We appreciate the opportunity to comment on the Proposals and are grateful for your consideration of our views and recommendations. If you have any questions regarding our comments, please feel free to contact Michael Triessl, Senior Counsel, Capital Research and Management Company, at [redacted].

Sincerely,

Peter D. Stutsman
Global Head of Equity Trading
The Capital Group Companies, Inc.

Timothy J. Stark
Head of Equity Markets and Transaction Research
The Capital Group Companies, Inc.

cc. The Hon. Gary Gensler, Chairman
The Hon. Hester M. Peirce, Commissioner
The Hon. Caroline A. Crenshaw, Commissioner
The Hon. Mark T. Uyeda, Commissioner
The Hon. Jaime Lizárraga, Commissioner
Haoxiang Zhu, Director, Division of Trading and Markets
William A. Birdthistle, Director, Division of Investment Management