



CAPITAL
GROUP™

EMSAC - Presentation on Maker Taker Pricing

Matt Lyons

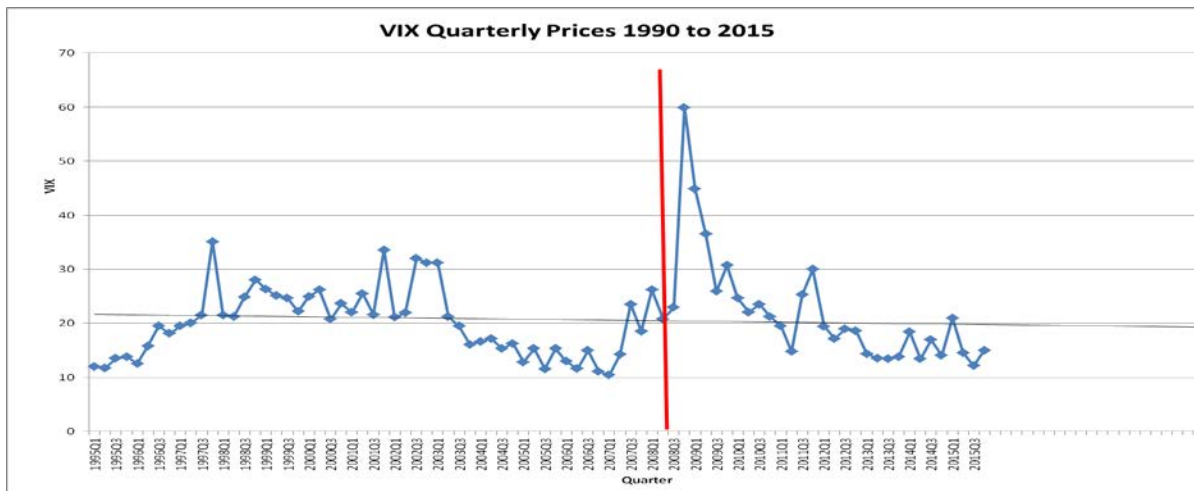
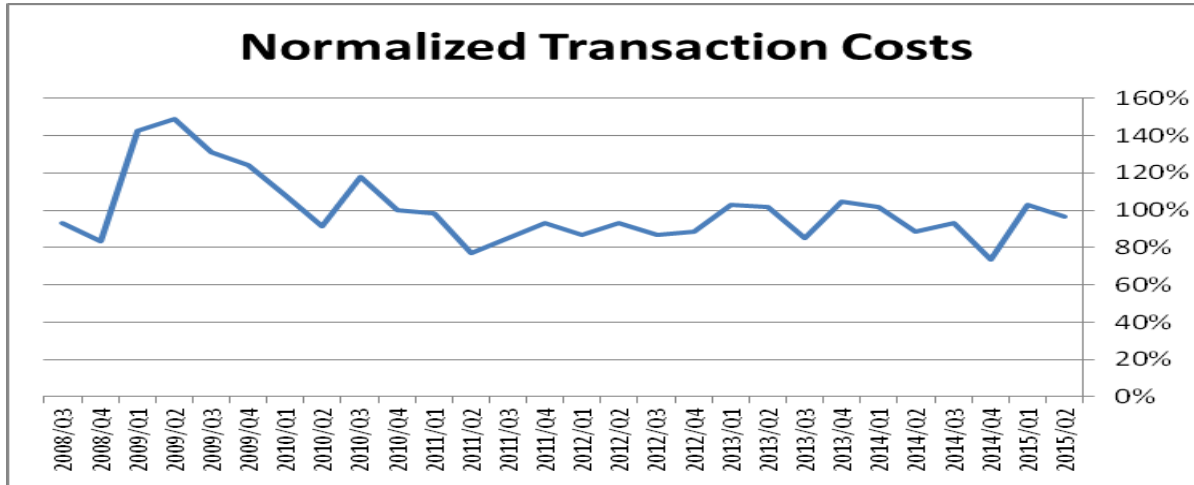
10/27/15

“Benefits” of Maker-Taker Pricing

- Incent displayed liquidity to add to price discovery
- Reduce transaction costs
- Promote competition of trading venues

Capital Research and Management Relative Trading Costs

Post Reg NMS 2008 - 2015



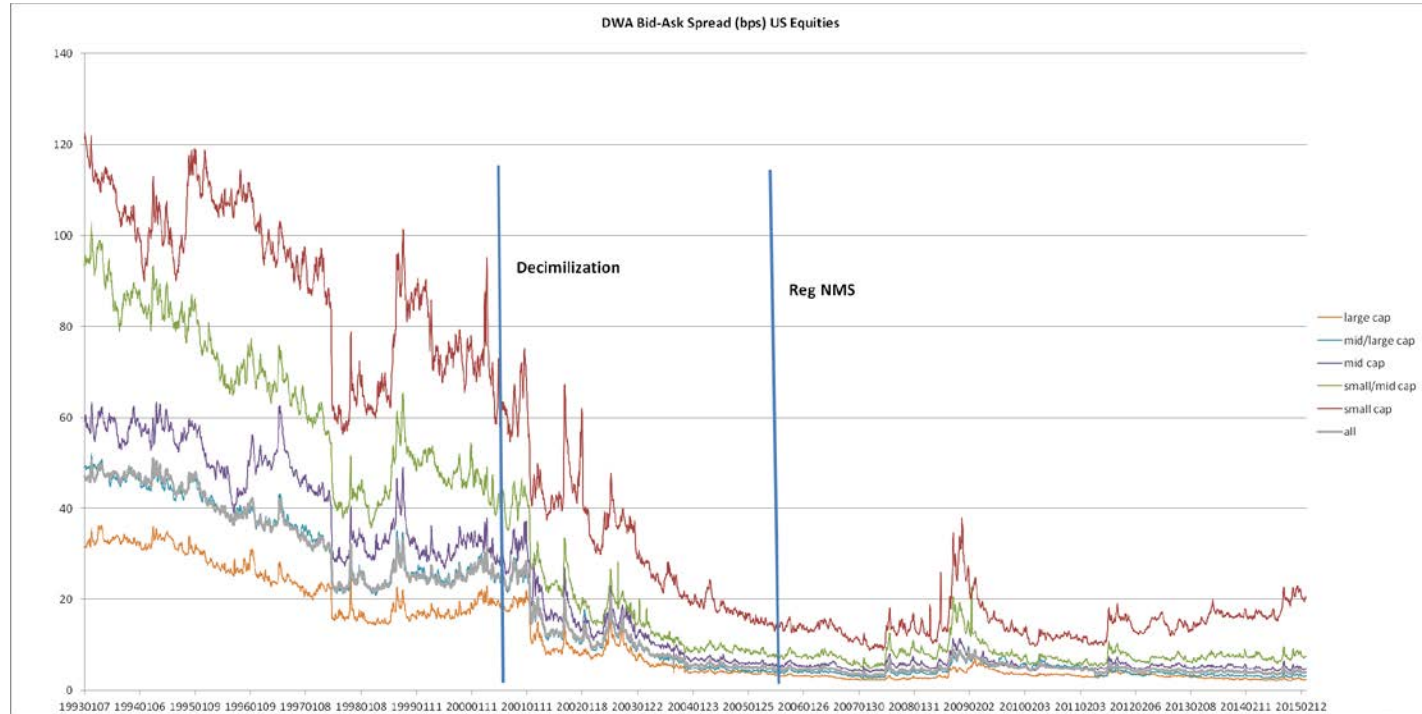
Data: ITG (costs normalized to average over the period)

Department name.

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Impact of Maker Taker on Spreads

Decimalization was bigger influence



Rule 11A of The Exchange Act

Establishment of National Market System

- (C) It is in the public interest and appropriate for the protection of investors and the maintenance of fair and orderly markets to assure—
- (i) economically efficient execution of securities transactions;
- (ii) fair competition among brokers and dealers, among exchange markets, and between exchange markets and markets other than exchange markets;
- (iii) the availability to brokers, dealers, and investors of information with respect to quotations for and transactions in securities;
- (iv) the practicability of brokers executing investors' orders in the best market; and
- (v) an opportunity, consistent with the provisions of clauses (i) and (iv) of this subparagraph, for investors' orders to be executed ***without the participation of a dealer (emphasis added)***.

Problems with rebates in maker taker pricing scheme

Conflicts of interest and complexity

- Broker Routing Decisions – Best Execution Obligation
- Complex Order Types – Rebate Avoidance
- Exchange receive subsidy for quoting at the inside after change in market data revenue scheme change in Reg NMS
- Complexity and Fragmentation / Fragility
 - Fee avoidance leads to proliferation of Broker ATS for fee avoidance through internalization
 - Exchanges have several models all competing solely on fees and rebate differences

The Capital Group Recommendations

Proliferation of rebates root of the problem

- Eliminate rebates
- Conduct a pilot to collect data on impact to market structure
- Evaluate changes to market data scheme