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April 11, 2017

Mr. Brent Fields
Deputy Secretary
Securities and Exchange Commission
100 F Street, NE Washington, D.C. 20549-1090

Re: Release No. 34-78309; File No. S7-14-16; Disclosure of Order Handling Information

Dear Mr. Fields,

The Security Traders Association (“STA”)¹ appreciates the opportunity to offer additional comments on the Securities and Exchange Commission (“Commission” or “SEC”) proposed rule on Disclosure of Order Handling Information; File No. S7-14-16 (the “Proposal”). The Proposal seeks to amend Rules 605 and 606 of Regulation National Market System (“Regulation NMS”) under the Securities Exchange Act of 1934 (“Exchange Act”) to require new and additional disclosures by broker-dealers to retail and institutional customers about the routing of their orders. The Proposal would require broker dealers to disclose routing and execution information upon request from its customers and to also make certain reports publically available.

In our letter to the Commission dated September 26, 2016² (“Previous Letter”), STA expressed support for the Proposal; however, this letter makes the following recommendations:

- The enhanced disclosures on payments and fees on retail customer orders should be provided in a more general disclosure format for retail customers to consume.
- The determination of retail customer and institutional customer should be based on a format other than order size.
- The Commission should provide clarity on the level of obligation a broker-dealer who provides algorithm trading services will have to a broker-dealer who is using these services in the course of executing orders on behalf of their institutional customers.
- The categorization of algorithms should not be included in the final rulemaking.

¹ The STA is a trade organization founded in 1934 for individual professionals in the securities industry and is committed to promoting goodwill and fostering high standards of integrity in accord with the Association’s founding principle, Dictum Meum Pactum – “My Word is My Bond”

² [Letter to Mr. Brent Field, Deputy Secretary, Securities and Exchange Commission, September 26, 2016](#)



- Proposed amendments to Rule 606, which require the public availability of reports, should be limited to non-directed orders.
- Reporting exemptions for brokers and dealers with di minimis amounts of institutional orders or customers should be allowed.

Comments offered in this current letter complement the recommendations made in our September 26, 2016 letter, providing additional clarity on previous recommendations or including new recommendations in areas that STA did not originally comment on.

The determination of retail customer and institutional customer

In our Previous Letter, STA stated:

STA recognizes that regardless of which approach or format the Commission uses to segregate order flow, there will be some level of duplication or shortfall in capturing routing and execution data from retail and institutional customers. STA recommends the Commission, with industry input, choose an approach and format which presents the most de minimis level of duplication and shortfall in data.

STA recommends that using a format based on held vs not-held orders is the most efficient means to segregate order flow in the context of what institutional and retail investors are seeking.

Di minimis exemptions

In our Previous Letter, STA stated:

STA believes that broker-dealers with a di minimis amount of institutional activity, as measured by institutional shares executed as a percentage of all shares executed should be exempt from reporting institutional orders.

STA recommends that a 5% threshold, or measure of executed shares as a percentage of all executed shares, be used in determining if a broker dealer executes a di minimis amount of institutional orders, and therefore be exempt from reporting these orders.

Including options contracts in the definition of “institutional orders”

The proposal requested comment on whether the definition of “institutional order” should be expanded to include options contracts. As proposed, the definition of institutional order would only apply to orders for NMS stocks, and therefore, would not include orders in NMS securities that are options contracts. In STA’s Previous Letter we did not offer comment on this issue. We now do not believe options contracts should be included in the definition of “institutional order”. STA supports certain remarks made by the Commission in the proposal which describe the decision to omit options contracts, in particular:



The Commission preliminarily believes that at this time the current listed options market structure does not present the same concerns regarding fiduciary responsibilities, information leakage, and conflicts of interest as the market structure for NMS stocks.

Furthermore, STA has reservations that any benefit which may result in including options contracts in the definition of “institutional order” would fail to justify the costs for implementing this requirement.

Broker dealer requirement to disclose venues to which Actionable Indications of Interest, “IOI’s” are sent.

Under the Proposal, a broker-dealer would be required to disclose the venue or venues to which institutional orders were exposed through an Actionable Indication of Interest (IOI). The SEC has proposed to include Actionable IOIs in the institutional order handling report to allow institutional customers to better understand how brokers handle their institutional orders, particularly with regard to information leakage. The Proposal has not defined “venue” and as such, STA is concerned that IOIs sent by broker-dealers to their institutional client base will be captured in the order handling reports, thus comprising the identity of those clients. STA therefore recommends that the SEC clarify this term in the context of what institutional investors are seeking. STA believes that replacing “venue” to mean “market center” as defined in Rule 11Ac1-5(a)(14) efficiently balances the capture of meaningful amounts of useful data with limiting the risk of exposing a broker dealer’s proprietary customer base.

Conclusion

The STA appreciates the opportunity to comment on the Proposal. We acknowledge and thank the Commission and all the staff responsible for designing the requirements for the worthy policy goal which the Proposal seeks to address. We look forward to working with the Commission on the final design and implementation of the Proposal.

A handwritten signature in black ink, appearing to read "Jon Schneider".

Jon Schneider
Chairman of the Board

A handwritten signature in black ink, appearing to read "James Toes".

James Toes
President & CEO

Cc:
Michael Piwowar, Acting Chairman US Securities & Exchange Commission
Kara Stein, Commissioner US Securities & Exchange Commission
Heather Seidel, Acting Director, Trading & Markets Committee US Securities & Exchange Commission