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February 21, 2017

*Via Electronic Mail*

Alp Eroglu  
International Organization of Securities Commissions (IOSCO)  
Calle Oquendo 12  
28006 Madrid  
Spain

Re: *Public Comment on Report on Order Routing Incentives*

Dear Mr. Eroglu:

ICI Global<sup>1</sup> appreciates the opportunity to comment on the consultation report issued by the International Organization of Securities Commissions (“IOSCO”) on order routing incentives.<sup>2</sup> The Consultation Report provides useful information about the types of incentives that might affect broker routing decisions in various jurisdictions and how different regulatory approaches affect these incentives. We welcome IOSCO’s efforts to collect and share information on order routing incentives, and we appreciate the cross-jurisdictional transparency that the Consultation Report provides into this important topic.

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<sup>1</sup> ICI Global carries out the international work of the Investment Company Institute, serving a fund membership that includes regulated funds publicly offered to investors in jurisdictions worldwide, with combined assets of US\$20.2 trillion. ICI Global seeks to advance the common interests and promote public understanding of regulated investment funds, their managers, and investors. Its policy agenda focuses on issues of significance to funds in the areas of financial stability, cross-border regulation, market structure, and pension provision. ICI Global has offices in London, Hong Kong, and Washington, DC.

<sup>2</sup> Board, *Report on Order Routing Incentives, Consultation Report*, International Organization of Securities Commissions (December 2016), available at <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD551.pdf> (“Consultation Report”).

Our members—investment companies that are registered under the Investment Company Act of 1940 and other regulated funds in jurisdictions around the world (“funds”)<sup>3</sup>—are significant investors in the global equities markets. Funds generally execute their orders through intermediaries (typically broker-dealers), and their orders are often routed for execution to multiple trading venues, such as exchanges and electronic trading systems. As market structures have become ever more complex, a number of incentives have developed that may pose conflicts of interest for broker-dealers in routing client orders. Funds therefore have a strong interest in having greater visibility and insights into how broker-dealers route and execute their orders, and ICI Global strongly supports efforts to improve the ability of funds and other institutional investors to evaluate broker and venue performance.

Moreover, in market structures that allow more than one market center to trade the same security, the order routing decision is critically important, not only to the investor that submits the order but also to the market structure as a whole.<sup>4</sup> The Consultation Report finds that despite the importance of order routing decisions, no jurisdiction has adopted sufficient disclosure requirements to enable institutional investors to assess satisfactorily the order routing performance of broker-dealers or execution venues.<sup>5</sup> This finding is consistent with our understanding of the current market structure in the jurisdictions where our members operate.

Having access to uniform, comprehensive disclosures about the order handling practices of brokers would enhance the ability of funds to improve the execution quality of their orders and deliver long-term returns to their investors and provide benefits to the markets as a whole. We therefore strongly support industry initiatives and efforts by national authorities—the entities best positioned to determine the optimal level and type of disclosure for their particular market—to improve transparency into order routing practices. In the United States, for example, ICI and its members led efforts with other buy- and sell-side trade associations to increase transparency into order routing practices and incentives by developing a standardized disclosure template that would provide an asset manager a broad range of statistical data necessary to assess a broker’s handling of the manager’s equity orders and the execution quality achieved by the broker at each execution venue.<sup>6</sup> The US Securities and Exchange

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<sup>3</sup> For purposes of this letter, the term “fund” includes any collective investment vehicle that (1) primarily invests in securities, (2) is substantively regulated, and (3) is eligible for public sale. Generally, such funds are regulated to make them eligible for sale to the retail public, even if a particular fund may elect to limit its offering to institutional investors. Such funds typically are subject to substantive regulation in areas such as disclosure, form of organization, custody, minimum capital, valuation, investment restrictions (*e.g.*, leverage, types of investments or “eligible assets,” concentration limits and/or diversification standards).

<sup>4</sup> See US Securities and Exchange Commission, *Disclosure of Order Handling Information*, Securities Exchange Act Release No. 78309 (July 13, 2016), 81 FR 49432, 49435 (July 27, 2016), available at <https://www.gpo.gov/fdsys/pkg/FR-2016-07-27/pdf/2016-16967.pdf>

<sup>5</sup> See Consultation Report at 8-12 (describing existing regulatory approaches and supervisory initiatives concerning regulatory frameworks for order routing and third party payments).

<sup>6</sup> See Letter from Dorothy M. Donohue, Deputy General Counsel, ICI, Stuart J. Kaswell, Executive Vice President & Managing Director, General Counsel, Managed Funds Association, and Randy Snook, Executive Vice President, Securities

Commission used ICI's template as a foundation for its recent proposal to improve order routing transparency in the US equity market.<sup>7</sup> We welcome the opportunity to work with other regulators to improve order routing transparency in their jurisdictions.

Similarly, we believe there is benefit to enhancing understanding of non-execution services that intermediaries may provide to their clients alongside execution services as part of the mosaic of available information to funds and other investors. In reviewing these services, regulatory authorities should be mindful of the benefits that these service arrangements can provide to intermediaries, funds, and fund investors and consider fully the impact any changes may have on fund managers—particularly those that operate in multiple jurisdictions—and any potential negative consequences of such reforms. Any potential reforms, if found necessary, must provide a realistically workable framework for fund managers.

The tremendous importance of a broker's order handling decisions on market participants makes it imperative for national authorities to understand the order routing incentives that exist across jurisdictions. IOSCO is the appropriate forum to facilitate an information exchange on order routing incentives that will help national regulators and market participants understand how practices in a particular market compare with practices elsewhere. We expect that the nature of order routing incentives will evolve as market structure changes, and IOSCO should continue to play a central role in encouraging jurisdictions to exchange information on this important topic as conditions warrant.

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We appreciate the opportunity to provide feedback on the Consultation Report. If you have any questions on our letter, please feel free to contact me, Jennifer Choi, Associate General Counsel, at (202) 326-5876, or Eva Mykolenko, Associate Chief Counsel, at (202) 326-5837.

Sincerely,

/s/ Dan Waters

Dan Waters  
Managing Director  
ICI Global  
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Industry and Financial Markets Association, to Mary Jo White, Chair, US Securities and Exchange Commission, dated October 23, 2014, available at <https://www.ici.org/pdf/28480.pdf>.

<sup>7</sup> See US Securities and Exchange Commission, *Disclosure of Order Handling Information*, Securities Exchange Act Release No. 78309 (July 13, 2016), 81 FR 49432 (July 27, 2016), available at <https://www.gpo.gov/fdsys/pkg/FR-2016-07-27/pdf/2016-16967.pdf>.