



**Statement of Michael Buek**  
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**SEC Equity Market Structure Advisory Committee**  
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Good morning Chair White, Commissioners, Committee Members, and Division Staff. Thank you for the opportunity to participate in this discussion of access fees and Rule 610 of Reg NMS. My name is Michael Buek and I am an Equity Index Portfolio Manager and Trader for Vanguard. I lead a team that is responsible for managing roughly \$1.8 trillion in equity index mutual funds. At Vanguard, our mission is straightforward: To take a stand for all investors, treat them fairly, and to give them the best chance for investment success.

With that mindset, let me start by stating that the U.S. equity markets are the most efficient markets in the world with a robust regulatory regime that provides ordinary investors, whether through mutual funds or individual brokerage accounts, with easy and low-cost access to the equity markets. Regulatory changes, technological advances, and market competition over the past twenty years have benefited all investors as transaction costs have reduced and the ability of any investor to get a fair price and immediate access to the markets has never been better.

The way in which the equity markets operate, however, is far from simple. On a daily basis, Vanguard is responsible for trading billions of dollars of other people's money and we take that responsibility very seriously. Because of our size, we must establish relationships with numerous brokers, ATSS, and exchanges. We have a responsibility to our fund shareholders to be sure we understand how the markets are connected as well as the incentives and potential conflicts of interest that exist across the markets.

Reg NMS provides incentives for certain types of conduct and imposes disclosure obligations to help investors understand the potential conflicts of interest that may exist. To the extent the rules provide incentives for certain types of conduct or enable potential conflicts, the benefits must be clear and significant. More importantly, as the markets continue to evolve, we must continue to reevaluate the state of affairs. Practices that may have developed for entirely legitimate reasons may lose their value over time.

We commend the Commission for engaging in this very exercise through its thoughtful consideration of equity market structure reforms over the past few years and its continued work through this committee.

Let me now turn to access fees. We think it is time to challenge and test whether the current maker-taker models are continuing to appropriately advance the goals of our national market system. It is the Commission's responsibility to ensure our market structure appropriately balances the objectives of Reg NMS, including the sometimes conflicting objectives of facilitating fair competition among market centers and promoting price discovery and order interaction.

When they were first developed, maker-taker pricing models promoted competition among market centers which had been historically dominated by a handful of exchanges. When originally approved by the SEC, the access fee cap of Rule 610 acknowledged the practice of paying rebates to attract order flow and the cap was intended to assure investors that their orders would not be subject to hidden fees. The current cap on access fees of thirty mils under Rule 610 was based on the standard prices that had existed at the time the rule was approved in 2005 and has not been updated since that time.

Much has changed since 2005. As this committee is aware, we have evolved to a structure in which 11 exchanges, roughly 40 ATs, and numerous broker-dealer internalizers compete for order flow. Many of these venues include some sort of maker-taker model in which fees are charged for accessing or taking liquidity and a rebate is paid to the market participants posting or making liquidity. A small fraction of the access fee is actually retained by the exchange or market center as compensation for providing access to quotes and orders.

What has developed over time is a segment of the market that has created trading strategies that are solely based on a desire to capture rebates and avoid fees – a game that our structure permits. We now have a structure in which many market participants are competing solely for the benefit of capturing a rebate or avoiding a fee rather than competing on the fundamental price of the underlying security. Further, we have seen the proliferation of complex order types designed to assist in these trading strategies. Likewise, the access fees and rebates under maker-taker models distort the price discovery process as posted orders do not account for the actual costs to trade at posted prices. Finally, there is the perception that certain brokers' order routing practices place greater importance on capturing rebates and avoiding fees than maximizing execution quality. Because these perceptions exist, we owe it to investors to examine whether the practice continues to be justified.

As part of that examination, Vanguard supports the following reforms:

First, we support a well-designed pilot across a significant number of stocks which would eliminate the rebates paid under the maker-taker models. We believe the pilot should encompass stocks with various levels of liquidity. We would encourage the Commission to design the pilot to include a broad universe of stocks. There are a significant number of stocks which, we believe, do not need the incentives to post liquidity provided by the maker-taker model. A broad universe of stocks would provide meaningful data to analyze the impacts of the pilot across various types of securities.

Second, while this pilot could move forward on its own, we believe there should also be a "Trade-At" component to the pilot. Like most market structure discussions, any discussion of access fees and Rule 610 must recognize the impacts on other regulations and the potential unintended consequences to the market. We believe changes to the access fee rules should also consider changes to Rule 611, the order protection rule of Reg NMS.

Vanguard has been a strong supporter of a Trade-At for years. We believe publicly displayed liquidity is the foundation of our national market system. Because the current trade-through rule permits market centers to use the publicly displayed quote without price improvement or first routing to the venue providing the posted price, there are few incentives to publicly display liquidity. Today, one could argue one of the primary reasons to publicly display liquidity is to capture rebates under the maker-taker model. If rebates are eliminated, the incentives to publicly display order information could potentially be limited

to an even greater extent. This is why we believe a pilot eliminating rebates should include a Trade-At component, which we believe would provide the appropriate incentives to contribute to the public price discovery process. We believe a Trade-At structure will encourage competition of displayed orders, create a deeper and tighter displayed market, decrease the need for complex order types, and decrease the overall complexity of the markets.

While including a Trade-At component to the pilot would expand its scope, it is important to note that other current initiatives approved by the SEC include a Trade-At requirement. Therefore, the infrastructure and costs associated with implementing a Trade-At requirement for certain securities will have, to a great extent, already been incurred under existing initiatives. We think not including Trade-At in any maker-taker pilot would be a missed opportunity.

We believe Reg NMS has been successful in promoting the important goal of facilitating competition among market centers. The incentives that enable market centers to compete need to be reexamined so that we can be sure the rules of the road appropriately further other goals of Reg NMS, particularly public price discovery and the competition of orders.

Thank you for allowing me to participate in today's discussion. I commend the Commission and this committee for your commitment to continuously improving our equity markets for all investors. I look forward to participating in today's dialogue.