Attention:
Brent J. Fields
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E. Washington, D.C. 20549-1090

June 25, 2018

Dear Mr. Fields:

I am writing on behalf of AGF Investments Inc., a Canadian-based global asset management firm, to express our support for the Securities and Exchange Commission's (SEC) Transaction Fee Pilot in NMS stocks.

In my role as Chief Trading Officer, I believe that rebates paid by national stock exchanges have created market inefficiencies that are detrimental to long-term investors. These payments create an inherent conflict of interest which underpins U.S. equity trading, wherein transaction fees and rebates are (mostly) incurred at the broker level, but execution quality arising from broker routing decisions are borne by the end investor. As early as 2010, it was acknowledged that maker-taker pricing "distorted order routing decisions" and "aggravated agency problems among brokers and their clients."[1]

Public data shows that these conflicts continue to exist today. A recent whitepaper[2] published by IEX (a stock exchange which does not pay rebates) demonstrated that there is a clear relationship between exchange pricing and execution quality. In summary, resting orders placed on exchanges which charge the highest fees and, in turn, pay the highest rebates, experience the most adverse selection. Nonetheless, these exchanges have the longest order queues, suggesting that brokers continue to direct orders to venues offering worse performance.

By eliminating the rebate model that currently exists, it is my opinion that conflicts of interest will diminish, exchange fragmentation will decrease, trade execution will improve and market data will flow more freely.

At AGF, we believe that the integrity and success of the Pilot are primarily dependent on two key elements:

No-Rebate Bucket

The SEC has recommended a Pilot design that will include a control group and three test groups, one of which will wholly prohibit rebates and linked pricing over the length of the initiative. This "no-rebate" bucket will provide an important data set that will help demonstrate the effect of rebates, of any size, on order routing and execution quality, while still allowing exchanges to compete without imposing further pricing controls on the market.

The Inclusion of All NMS Exchanges

The recommendation to include all NMS exchanges in the Pilot is crucial for limiting potential distortions in routing incentives and will help ensure the integrity of data points compiled during the study. This must include maker-taker exchanges that offer rebates to add liquidity, as well as taker-maker exchanges that offer rebates to remove it. The growing popularity in recent years of the latter may be evidence that market participants do not require payment in return for the provision of liquidity at competitive prices.

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[1] *See* James Angel, Lawrence Harris, and Chester Spatt., Equity Trading in the 21st Century (May 18, 2010), avail at https://www.sec.gov/spotlight/emsac/equity-trading-in-the-21st-century.pdf

[2] *See* Elaine Wah, Stan Feldman, Francis Chung, Allison Bishop, and Daniel Aisen., A Comparison of Execution Quality across U.S. Stock Exchanges (April 19, 2017), avail at https://iextrading.com/docs/A%20Comparison%20of%20Execution%20Quality%20across%20U.S.%20Stock%20Exchanges.pdf

In addition to these critical requirements, we are supportive of the SEC proposal to include 1,000 stocks in each bucket and agree that the Pilot should be conducted over a period of two years as suggested.

This will provide sufficient time to generate the results needed to make a thoughtful decision about the existing rebate model in the United States.

John Christofilos

Senior Vice-President & Chief Trading Officer
AGF Investments Inc.