

United States Senate

WASHINGTON, DC 20510

June 21, 2024

The Honorable Gary Gensler
Chair
U.S. Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

Dear Chair Gensler,

We are writing to express our concerns regarding the Securities and Exchange Commission's (The Commission) proposal on volume-based transaction pricing for National Market System (NMS) stocks, detailed in File No. S7-18-23, Release No. 34-98766 (the Proposal). Specifically, we believe the Proposal would severely impact market liquidity, widen bid-ask spreads, and inadvertently undermine the competitive, efficient, and stable operation of the U.S. securities markets.

Volume-based pricing is a long-standing practice that encourages a vibrant, competitive marketplace, benefiting a broad spectrum of market participants. Volume-based pricing is commonplace across various industries, promoting competition and rewarding entities for their contributions to the market. This practice has played a critical role in enhancing market liquidity, facilitating efficient price discovery, and maintaining the stability of financial markets.

Despite these facts and without sufficient justification, the Proposal would explicitly prohibit volume-based pricing, suggesting it creates barriers for smaller brokers. However, these assumptions are inconsistent with the realities of existing market operations and competition. In fact, the Proposal's adverse impact on smaller brokers and the broader broker-dealer ecosystem is likely to be significant. The Proposal would likely stifle smaller brokers' competitive capabilities and result in market consolidation, reduced choice, and potentially increased costs for investors.


As the Commission concedes, the Proposal will likely lead to wider bid-ask spreads, reducing market depth and efficiency by diminishing incentives for large order placements by liquidity providers. For investors, broader spreads mean higher trading costs, directly impacting their ability to execute trades efficiently and at optimal prices. These negative consequences would not only disrupt today's well-functioning trading environment by making it costlier and less appealing for all market participants, but also potentially increase market volatility. In a market where bid-ask spreads are wider, the cost of entering and exiting positions becomes significantly higher, discouraging trading activity and liquidity provision, which are foundational aspects of a healthy financial ecosystem. This cycle of reduced liquidity and increased trading costs would undermine the competitive dynamics of the markets, ultimately harming retail investors and affecting the broader economy by impeding efficient capital allocation and risk management.


We agree with SEC Commissioner Hester Peirce's view that, "this rulemaking appears to be the product of fear that is not rooted in reality" due to the absence of solid data to substantiate the concerns driving the Proposal and the speculative nature of the potential harms it purports to address. Commissioner Peirce's comparison to volume-based discounts in retail environments underscores the prevalence and efficiency of such pricing strategies across industries, and the Commission has not offered an answer as to why the securities industry should be an exception.

Both Commissioners Peirce and Uyeda emphasized in their statements that the Proposal could disrupt established market practices without providing clear evidence of the need for such sweeping changes. Their insights raise significant questions about the Proposal's potential to stifle competition, particularly affecting smaller market participants who stand to lose from the elimination of volume-based pricing incentives.


The Proposal's overly simplified view fails to acknowledge the full extent of benefits that volume-based pricing brings to market dynamics and investors and ignores the superiority of market-based pricing mechanisms over central planning. Therefore, we request the Commission withdraw the rulemaking in order to preserve market liquidity and efficiency.


Sincerely,


M. Michael Rounds
United States Senator

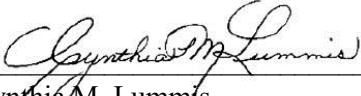

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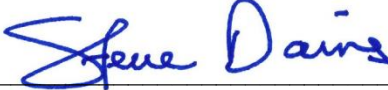

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