Dimensional

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March 31, 2023

Vanessa A. Countryman
Secretary
US Securities and Exchange Commission
100 F Street NE
Washington, DC 20546-1090

Re: Equity Market Structure Proposals, File Nos. S7-29-22, S7-30-22, S7-31-22, and S7-32-22

Dear Ms. Countryman,

Dimensional Fund Advisors LP ("Dimensional") appreciates the opportunity to comment on the US Securities and Exchange Commission's (the "Commission") four equity market structure proposals.[1] Dimensional is a registered investment adviser and together with its advisory affiliates, has approximately $584 billion in global assets under management.[2]

Chair Gensler has repeatedly referred to the US capital markets as "the envy of the world."[3] We believe that the US equity markets typically function efficiently and reliably, and at Dimensional, our investment approach is based on our enduring belief in the power of markets. Over the last decade, trading costs for retail investors have decreased dramatically, and we believe this is partially attributable to the stability of the regulatory framework, which in turn has allowed the market to create innovative solutions that have benefited retail investors. While we support changes to the regulatory framework that improve the fairness and efficiency of the US equity markets, many aspects of the Commission's proposals are very complex, and the extent to which the proposals will affect the markets—particularly if implemented simultaneously—is unpredictable. We are extremely concerned that implementing such a sweeping overhaul of the current market structure will disrupt the orderly functioning of the US equity markets and have unintended negative consequences for investors. Rather than adopt all four proposals at once, we strongly urge the Commission to take a measured and incremental approach that carefully considers the costs to the industry and the potential consequences for investors. Such an approach

1 US Securities and Exchange Commission, *Disclosure of Order Execution Information*, Release No. 34-96493 (Dec. 14, 2022) (the "Execution Information Proposal"); US Securities and Exchange Commission, *Regulation NMS: Minimum Pricing Increments, Access Fees, and Transparency of Better Priced Orders*, Release No. 34-96494 (Dec. 14, 2022) (the "Tick Size Proposal"); US Securities and Exchange Commission, *Order Competition Rule*, Release No. 34-96495 (Dec. 14, 2022) (the "Order Competition Proposal"); US Securities and Exchange Commission, *Regulation Best Execution*, Release No. 34-96496 (Dec. 14, 2022) (the "Best Ex Proposal")

2 As of December 31, 2022.

3 *See*, for example, Gensler, Gary, *Kennedy and Crypto* (Sept. 8, 2022) available at https://www.sec.gov/news/speech/gensler-sec-speaks-090822.

would decrease the risk that the Commission's regulations will disrupt the orderly functioning of US equity markets.

Below, we set forth below our high-level views on each of the four proposals.

1. ***Execution Information Proposal***

Rule 605 of Regulation National Market System currently requires market centers, as defined in the rule, to make publicly available a standardized report on the execution quality for covered orders in NMS stocks. The Execution Information Proposal would expand the scope of entities subject to the rule and update the scope and content of the standardized reports. In general, we strongly believe that market transparency fosters a fair and efficient market. While we are not certain that the proposal would result in disclosure of additional information that would enhance our understanding of execution quality, we are not opposed to the Execution Information Proposal.

2. ***Tick Size Proposal***

Under the Tick Size Proposal, the Commission would adopt variable minimum pricing increments ranging from $0.001 to $0.01 for both the quoting and trading of NMS stocks, regardless of trading venue. The Commission notes that increasingly, trading volume is being routed off-exchange to market-making firms because they can execute trades at smaller increments than are quoted on an exchange. This has resulted in an extra step for market participants, *i.e.*, participants have to determine and set two different price limits for each trade—one if the trade is executed on an exchange and another if it is executed off-exchange. While the Tick Size Proposal would rectify this, we believe that the Tick Size Proposal—which would quote different buckets of securities in different increments—is unnecessarily complex and would be an extreme and costly change for investors that may also have unforeseen consequences on the market.

We note that the Commission's 2016 tick size pilot program for small- and mid-capitalization stocks was extremely costly for investors, and in our view, did not produce cost-justifying benefits. By some estimates, the two-year program may have increased investors' trading costs by as much as $900 million.[4] We urge the Commission to keep the costs of the tick size pilot program in mind when considering whether to adopt the current Tick Size Proposal. A simpler, more incremental approach would give the Commission time to observe the impact of its changes on the market—including costs to investors—and adjust its approach, if necessary. For example, the Commission could first adopt changes to lot sizes, which would result in more data that could help inform what tick sizes would make the most sense without adding unnecessary complexity. Then, if changes to tick sizes are made, the Commission could begin with larger increments than those currently proposed, such as allowing certain stocks to trade at a half-penny increment. The Commission could also consider whether it would be appropriate to create a bucket of securities that trade at increments larger than a penny. We believe a more incremental approach

[4] Alpert, Bill, "Congress' Failed Stock Market Experiment Cost Investors $900 Million," *Barron's* (Sept. 14, 2018) available at https://www.barrons.com/articles/sec-tick-size-pilot-program-1536961160.

that takes into account costs to investors would decrease the risk that markets would be disrupted by the implementation of a new rule.

3. Order Competition Proposal

Currently, the majority of individual investors' marketable orders are routed to a small group of off-exchange dealers, known as wholesalers, who typically execute these orders internally without providing an opportunity for other market participants to compete to provide more favorable prices for these orders. The Order Competition Proposal would require wholesalers to expose these orders to competition in fair and open auctions before executing them internally. The opportunity to compete for retail orders could be a positive development for some market participants, including institutional investors, and we generally support market-created mechanisms that would enable more market participants to interact with retail order flow. For example, at Dimensional, our portfolios tend to be widely diversified, and thus we believe it is likely that our clients would benefit from the opportunity to interact with retail order flow. However, we believe this should be a market-created solution, and we do not support a rule that would mandate auctions for all retail orders. In our view, requiring certain market participants to use a specific trading methodology—one that is not in use today—is an overly rigid solution, particularly because it is far from certain that the auctions would operate as proposed, the extent to which retail investors would benefit from auctions is unknown, and implementing auctions is likely to create complexity for traders. For these reasons, we recommend that the Commission withdraw this proposal.

4. Best Ex Proposal

Finally, even though the Financial Industry Regulatory Authority, Inc. ("FINRA") and the Municipal Securities Rulemaking Board currently have rules and guidance directly addressing the duty of best execution, the Commission has proposed new rules that would impose additional best execution obligations on broker-dealers. While we support the principle of best execution, we believe that market participants would be better served if there is one, consistent best execution standard. Subjecting broker-dealers to a new best execution standard, if it is inconsistent with existing standards, would create uncertainty in the market—both for the broker-dealers in complying with their duty, and for investors, if different brokers are subject to different best execution obligations. For example, current FINRA rules treat an order as retail based on who is submitting the order, whereas under the Commission's Best Ex Proposal, a transaction would be considered retail based on who the ultimate account holder is. We strongly recommend that the Commission revise its Best Ex Proposal—including its proposed definition of "transaction for or with a retail customer"—so that the Commission's standard aligns with broker-dealers' long-standing best execution obligations under existing rules.

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The Tick Size Proposal, Order Competition Proposal and Best Ex Proposal each have the potential to significantly disrupt the equity markets individually, and there is even more uncertainty as to how the proposals will impact the market in the aggregate. For this reason, we strongly encourage the Commission to reevaluate how its proposals will solve perceived problems in the market and consider the costs to investors of these extreme changes. If we can be of further assistance, please do not hesitate to contact Stephanie Hui, Lead Counsel, Global Public Policy and Vice President. We would welcome the opportunity to expand on our discussion of these issues.

Sincerely,

Gerard O Reilly

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Co-CEO and Chief Investment Officer

Ryan Wiley
Global Head of Equity Trading