March 22, 2023

By Email

Vanessa A. Countryman
Secretary
U.S. Securities and Exchange Commission 100 F Street, N.E.
Washington, D.C. 205499–1090 rule-comments@sec.gov

Re: Rule Proposal No. 34-96496; File No. S7-32-22 Regulation Best Execution and Rule Proposal No. 34-96494; File No. S7-30-22 Regulation NMS: Minimum Pricing Increments, Access Fees, and Transparency of Better Priced Orders

Ms. Countryman:

I am writing to you to discuss the controversial practice of Payment for Order Flow (PFOF) and why it can have a negative impact on retail investors.

Firstly, PFOF refers to the practice of brokerage firms receiving payment from market makers to direct their client's orders to them for execution. In other words, when you place an order to buy or sell a stock on a commission-free brokerage platform, that order is sold to a market maker who executes the trade and pays the broker a fee in exchange for the order.

On the surface, this may seem like a win-win situation. The broker receives compensation for directing orders to market makers, and the market makers receive a steady flow of orders to execute. However, this practice has come under scrutiny because it creates a conflict of interest between the broker and the investor.

When a broker receives payment for directing orders to a particular market maker, they have an incentive to send orders to that market maker, even if it's not the best execution venue for the investor. In other words, the broker may prioritize their own financial gain over getting the best execution for their clients. This can lead to suboptimal trade execution, resulting in inferior prices and higher costs for the investor.

Furthermore, PFOF creates a lack of transparency in the execution process. Investors are often unaware that their orders are being sold to market makers and may assume that their broker is routing orders to the best execution venue. This lack of transparency can lead to a lack of trust between the investor and the broker, further eroding confidence in the market.

In addition, PFOF can lead to a concentration of order flow in a small number of market makers, which can negatively impact competition and reduce market efficiency. This concentration can also lead to increased volatility and higher bid-ask spreads, which can also harm retail investors.

In conclusion, PFOF can negatively affect retail investors by creating a conflict of interest between brokers and their clients, leading to suboptimal trade execution, lack of transparency, and reduced market efficiency. It's important for investors to be aware of the potential drawbacks and for regulators to ensure that trading is transparent and fair to all investors.

Sincerely,

Michael Calibri

Retail Investor and Registered Voter