BLACKROCK

21 February 2017

Mr. Alp Eroğlu
International Organization of Securities Commissions (IOSCO)
Calle Oquendo 12
28006 Madrid
Spain

By email: consultation-2016-07@iosco.org

RE: IOSCO Report on Order Routing Incentives (CR07/2016)

Dear Mr Eroğlu

BlackRock[1] welcomes the opportunity to provide comments on IOSCO's Report on Order Routing Incentives. This report helpfully provides a review of the approaches and practices used by regulators in their respective markets regarding incentives for order routing and execution that may influence the behaviour of intermediaries (brokers).

BlackRock has written extensively on market structure reform over recent years.[2] Most recently in our letter to the SEC in September 2016[3] on the related issue of Disclosure of Order Handling Information, we stated our support for the SEC's efforts to improve transparency in the equity market by enhancing investor access to information about the order handling practices of broker-dealers. We believe that institutional investors would benefit from greater standardization and accessibility of this data, which will lead to more fulsome discussion between brokers and their customers regarding routing practices.

We have focussed our remarks on two broad areas in the current consultation from the perspective of the buy side – monetary incentives and broker affiliated crossing networks.

<u>Monetary incentives</u>

We are concerned that payments, such as fees and rebates, are material relative to commissions and this creates a conflict of interest for broker-dealers in routing customer orders. However, we recognize that rebates do incentivize market participants to provide liquidity - and studies have demonstrated that trading activity does respond meaningfully and rapidly to changes in fees.[4] We would suggest that a fulsome analysis of the issue should consider the liquidity benefit of incentives against the order routing conflicts for intermediaries in agency execution with respect to their best execution obligations.

Curbing the amount of fees/rebates in order to limit the distortive impact of payments on routing behaviour and/or creating different fee/rebate tiers based on the liquidity of a security could be viable solutions to address the issue, while still maintaining appropriate incentives for liquidity provision.

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[1] BlackRock is one of the world's leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world.
[2] See in particular: https://www.blackrock.com/corporate/en-de/literature/publication/blk-equity-market-structure-letter-sec-091214.pdf and https://www.blackrock.com/corporate/en-es/literature/whitepaper/viewpoint-us-equity-market-structure-april-2014.pdf
[3] See https://www.blackrock.com/corporate/en-us/literature/publication/sec-disclosure-order-handling-information-092616.pdf
[4] See Nasdaq access fee experiment results at http://www.nasdaqomx.com/transactions/trading/access-fee-experiment

Broker affiliated venues

Broker crossing networks and alternative trading systems have provided tangible benefits to investors in the form of price improvement, reduced information leakage, and the ability to selectively manage trading counterparties.[5] We believe that these venues, through the use of non-displayed orders, are an invaluable execution tool for large orders and securities which may be more difficult to trade due to wide spreads or low liquidity. We do recognise however that some aspects of broker affiliated venues should be subject to greater disclosure.

Recently, we have observed increased transparency from brokers regarding how such venues operate, but these disclosures are often difficult to assess due to differences in the level of detail and nature of the responses. We believe that having a standardized framework – based on globally agreed standards – for providing transparency on venue operations would be beneficial. Further, we believe that investors would be better equipped to evaluate order routing decisions if they received standardized metrics and data on broker order routing. This isn't currently available to investors because brokers do not generally provide information on orders routing which does not result in an execution. This aligns with our recommendation to the SEC (September 2016) to create more transparency on broker order routing for institutional investors.

Finally, we would suggest that in addition to improved controls and disclosures related to order routing, policy makers should affirm the broker's duty of best execution in the handling of customer orders. Intermediaries should have a clear understanding of the factors which can be considered in meeting best execution and regularly evaluate the impact of routing practices on execution quality.

We thank IOSCO for providing BlackRock the opportunity to express views on this issue. Please contact the undersigned if you have any questions or comments regarding BlackRock's views.

Sincerely,

Hubert De Jesus
Managing Director, Co-Head of Market Structure & Electronic Trading

Stephen Fisher
Managing Director, Government Relations and Public Policy

[5] Broker affiliated venues (such as "dark pools") generally permit buy side clients to restrict the counterparties with which they deal. This gives asset managers the flexibility to select the liquidity partners which they believe will provide best execution for their orders.