

# SEC Proposes Rule to Enhance Competition for Individual Investor Order Execution

### FOR IMMEDIATE RELEASE

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Washington D.C., Dec. 14, 2022 — The Securities and Exchange Commission today proposed a rule that would require certain orders of individual investors to be exposed to competition in fair and open auctions before such orders could be executed internally by any trading center that restricts order-by-order competition.

“Today’s markets are not as fair and competitive as possible for individual investors — everyday retail investors. This is in part because there isn’t a level playing field among different parts of the market: wholesalers, dark pools, and lit exchanges,” said SEC Chair Gary Gensler. “Further, the markets have become increasingly hidden from view, especially for individual investors. These everyday individual investors don’t have the full benefit of various market participants competing to execute their marketable orders at the best price possible. Thus, today’s proposal is designed to bring greater competition in the marketplace for retail market orders. I think it makes sense for the market, and for everyday individual investors, to allow the broader market to compete for their orders.”

Individual investors use marketable orders for stocks listed on U.S. securities exchanges (NMS stocks) when they seek to trade immediately at the best available prices in the market. Currently, retail brokers route more than 90 percent of these orders to a small group of off-exchange dealers, known as wholesalers. This routing practice is known as a type of segmentation and reflects the fact that these orders impose lower costs on liquidity providers than unsegmented order flow.

Wholesalers typically execute the marketable orders of individual investors internally, without providing any opportunity for other market participants to compete to provide better prices. As a result, these orders are not merely segmented; they are also isolated from order-by-order competition. While wholesalers provide some price improvement to these orders relative to prices available on national securities exchanges for unsegmented order flow, data analysis conducted for the proposal suggests that the amount of price improvement falls short of what would be expected if these orders were subject to order-by-order competition. The annual amount of this “competitive shortfall” is estimated to be \$1.5 billion.

If adopted, the proposed rule generally would prohibit a “restricted competition trading center” such as a wholesaler from internally executing “segmented orders” – orders for NMS stocks that are made for an account of a natural person or an account held in legal form on behalf of a natural person or group of related family members and in which the average daily number of trades executed in NMS stocks was less than 40 in each of the six preceding calendar months – unless the orders are first exposed to competition in a “qualified auction” operated by an “open competition trading center.” The proposed rule would also include limited exceptions to this general prohibition, such as for orders executed at a very favorable price for the individual investor.

The proposing release [is published on SEC.gov](#) and will be published in the Federal Register. The public comment period will remain open until March 31, 2023, or until 60 days following publication of the proposing release in the Federal Register, whichever is later.

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## Related Materials

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- [Proposed Rule](#)
- [Fact Sheet](#)