Statement

Statement on Final Rules Regarding Order Execution Quality

Chair Gary Gensler

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Today, the Commission is considering whether to adopt final rules to enhance disclosure requirements for order execution quality. I am pleased to support this adoption because it will improve transparency for execution quality and facilitate investors' ability to compare brokers, thereby enhancing competition in our markets.

Every day, investors turn to broker-dealers in the markets—often through brokerage apps—to build a better financial future.

How do you know, however, the quality of the broker's execution of your order? You can turn to measures that compare the price you received with what's called the National Best Bid and Offer at a particular time.

This information is measurable, but currently, the brokers whose apps you're using are not required to disclose execution quality in that way.

Rule 605, which the Commission first adopted in 2000, requires monthly disclosures on execution quality from market participants known as market centers. In the 24 years since Rule 605 was adopted, however, our equity markets have been transformed by ever-evolving technologies and business models.

Therefore, current Rule 605 disclosures provide investors with a picture of execution quality that could be improved.

Thus, I am pleased that these final rules will modernize Rule 605 in a number of ways.

First, the final rules will require that large broker-dealers—those with more than 100,000 customers—disclose execution quality to the public.

Right now, only the so-called market centers, including the wholesalers in the dark markets, must make this disclosure. The Rule 605 requirements will apply to larger broker-dealers that combined handle more than 98 percent of customer accounts and three out of five orders from broker-dealer customers.

By requiring large broker-dealers—like those operating the brokerage apps—to disclose execution quality as well, investors will be better able to factor execution quality into their decisions, and you will be able to compare the brokers when you select them. I think that this disclosure also will foster greater competition among brokers, creating additional incentives for brokers to improve execution quality to earn investors' business and trust.

Second, we're proposing to require more types of data to go into these execution quality reports.

For example, institutional investors often use percentage-based metrics such as the effective over quoted (E/Q) spread to evaluate execution quality. I think everyday investors would also benefit from easy access to these same metrics. These percentage-based metrics will help investors make apples-to-apples comparisons when evaluating brokers' execution quality.

Further, the disclosure of execution quality will apply to a range of order sizes based on notional dollar value—from $250 to $200,000 or more—with indications that the order is for an odd-lot, a round lot, or a fractional share. The final rules also refine the order type categories to be reported.

These amendments will improve execution quality disclosures through capturing a larger range of relevant data.

Third, today's amendments will require market centers and broker-dealers to produce summary reports on execution quality that everyday investors can read.

The reports for the 24-year-old Rule 605 look like a series of dashes, numbers, and symbols. I kid you not: It's kind of like the opening credits in "The Matrix."

By coincidence, the Matrix was released in 1999, just one year before the Commission last updated Rule 605. In the years since, the studios have released not one, not two, but three sequels to the Matrix. I think, three Matrix sequels after, it's about time we developed a "sequel" to current Rule 605 reporting as well, "welcoming" execution quality reports "to the real world" where everyday investors can actually use them.

The final rules will increase transparency for investors and facilitate their ability to compare brokers. That helps make our markets more efficient, competitive, and fair.

I'd like to thank members of the SEC staff for their work on these final rules, including:

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