

August 15, 2018

Mr. Brent J. Fields
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

Transaction Fee Pilot; Securities Exchange Act Release No. 82873; File No. 57-05-18

Dear Mr. Fields,

The Principles for Responsible Investment (PRI) is the world's leading initiative on responsible investment. Launched in New York in 2006, the PRI has grown to over 2,000 signatories, investing \$80 trillion and it is still growing. The U.S. is the PRI's largest market.

Responsible investment is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns.

The 2007 financial crisis demonstrated that, to achieve responsible investment outcomes, investors need to play their role in ensuring the stability of the financial system on which they rely. As PRI's blueprint explains, "excessive leverage, dealing in complex derivatives and high-frequency trading may benefit some in the short term, but they undermine the resilience of the system as a whole".

Within this context, the PRI welcomes the opportunity to comment on the U.S. Securities and Exchange Commission's (SEC) Transaction Fee Pilot for NMS Stocks¹. In particular, we welcome the test group that would prohibit rebates and linked pricing.

The PRI notes concerns that rebates can detrimentally impact long-term institutional investors, including U.S. and international retirement plans. Rebates can:

- raise costs of monitoring agents throughout the system, which are already high due to the imbedded informational asymmetries.
- worsen existing principal-agent relationships, for example, conflicts between broker interests and beneficiary / saver interests.
- incentivise short-term transactions over long-term investing.

We support the inclusion of all stocks in the pilot study, and agree with the Council of Institutional Investors (CII) "that the proposed Pilot would be substantially more informative with a no-rebate bucket than a pilot without one, because...only a complete prohibition on rebates will allow the Commission to study directly whether rebates create a conflict of interest for broker-dealers and the effects of such conflicts".

¹ <https://www.sec.gov/news/press-release/2018-43>

There is international support for the pilot, including Norges Bank. We also agree with the letter submitted May 25, 2018 by a number of U.S. public pension plans, including CalPERS, CalSTRS, OTP, SWIB, Arizona State Retirement System, NCPERS, and others which welcomed the Commission's efforts in "proposing the Pilot as a necessary and appropriate step to study the effects that these incentives have on broker order routing, execution quality, and market quality overall".

We appreciate the opportunity to share our views on the Transaction Fee Pilot.

Yours sincerely,

A handwritten signature in cursive script, appearing to read "Fiona Reynolds".

Fiona Reynolds
Chief Executive Officer
Principles for Responsible Investment

cc. The Honorable Jay Clayton, Chairman
The Honorable Kara M. Stein
The Honorable Michael Piwowar
The Honorable Robert J. Jackson, Jr.
The Honorable Hester M. Peirce