

INTERACTIVE BROKERS GROUP
ONE PICKWICK PLAZA
GREENWICH, CONNECTICUT 06830
TEL: (203) 618-5000 • FAX: (203) 618-7731

Thomas Peterffy
Chairman

August 1, 2014

Via Email & Federal Express

Stephen Luparello
Director, Division of Trading and Markets
U.S. Securities and Exchange Commission
100 F Street, NE Washington, DC 20549

Re: Proposal for Brokers to Publish Simple Monthly Cost of Execution Statistics

Dear Mr. Luparello:

There is much controversy in the industry and on the part of institutional and retail users of the U.S. equity markets concerning the impact of payment for order flow, dark pools, high frequency traders, best execution and brokers' fiduciary duty. The interplay of the many moving parts and the arguments for and against various practices seem hopelessly difficult for market participants to judge or to clarify what is right or wrong.

Ultimately it is the *all-in cost* of trade execution that matters and that is what customers (and regulators) need to be able to evaluate easily.

We propose that the Commission consider requiring all broker-dealers conducting customer business to supplement their existing Rule 606 routing reports with simple monthly statistics comparing all-in execution cost to the daily VWAP value for all executions for the month for their customers. The simple steps described below provide for the calculation of a *single number* for each brokerage firm that represents the all-in execution costs customers pay to execute trades through that broker on average over a month (or any significant time period)¹:

¹ The Commission, FINRA and/or other regulators could also require the production of this information on a retroactive basis in their current investigations of brokers' past execution practices.

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1. Trade Money: On each trading day, for all purchases and sales of Reg NMS stocks by customers², calculate the total shares bought, the total shares sold, the total money paid for all purchases, and the total money received for all sales. The Trade Money is the amount the customers paid or received, including the execution price plus all commissions and fees³ paid by the customers (and rebates paid back to the customers).
2. VWAP Money: Obtain the daily Volume-Weighted Average Price (“VWAP”) for all of the stocks purchased or sold by the firm’s customers on the day. Use this to calculate the total VWAP Money for purchases and for sales.⁴ This is the money that would have been paid or received if all customers’ trades had been executed at the VWAP, and the customers had paid no commissions or fees, and received no rebates.
3. Execution Cost: Take the total VWAP Money for sales minus the total Trade Money for sales, and the total Trade Money for purchases minus the total VWAP Money for purchases. The sum of these two numbers will show the total all-in execution cost incurred by the firm’s customers in all of the stocks purchased or sold on that day. Note, that this is not done on a stock-by-stock basis but rather for all Reg NMS purchases and sales on the day.
4. Percentage Execution Cost: Calculate the monthly Trade Money and Execution Cost by summing the daily values. Compute the percentage of monthly Execution Cost compared to the monthly Trade Money.⁵ This single number is a measure of the total all-in execution cost paid by the firm’s customers over the month.
5. Lastly, break down the Percentage Execution Cost into two categories: i)

² The data would exclude all customers who execute 5,000 or more trades per day on average. Customers who execute more than 5,000 trades per day are likely to be HFTs or firms acting as market makers and taking the other side of customer trades. The profits of these types of high volume traders (if included in the broker’s statistics) would likely counterbalance the execution costs borne by other customers of the firm – *i.e.*, masking the costs paid by the firm’s non-HFT customers.

³ Fees would include any per-transaction fees charged by the broker or fees passed on to the customer by the broker (*e.g.*, regulatory fees, exchange fees, clearing fees, etc.). Likewise any rebate credited to the customer would be included.

⁴ *I.e.*, separately for purchases and sales, calculate the total, over all stocks, of the product of the total shares purchased or sold in each stock and the stock’s VWAP price.

⁵ This is done by taking the sum of the daily execution costs and dividing by the sum of the daily sale and purchase Trade Money.

Commissions and Fees; and ii) All Other.⁶ This will enable customers to see how much they are paying in *direct* commissions and fees versus how much they are paying in *indirect* execution costs (price improvement or dis-improvement, spread, etc.).

Starting this month, Interactive Brokers will calculate and post on our website the above statistics. A sample is attached hereto for the months of January to July 2014. As you can see, on \$76.7 billion in total trades in July, our customers paid a total execution cost of .013% (1.3 basis points) compared to the daily VWAP. 1.1 basis points were paid directly in commissions and fees and the remaining .2 basis points were comprised of other execution costs. For 2014 to date, on \$571.5 billion in Reg NMS equity trades, our customers paid a total execution cost of .008% (.8 basis points) compared to the daily VWAP. 1.1 basis points were paid directly in commissions and fees but IB was able to achieve a cost savings to customers of -.3 basis points in other execution costs due to the use of IB's Smart Routing system.

* * *

Since the mid-1980's the concept of the daily Volume-Weighted Average Price has become ubiquitous and VWAP is now a standard measuring tool for knowledgeable customers and in the academic community for evaluating execution quality.

On a trade-by-trade basis looking at individual executions, there will be obvious variability between trade price and VWAP depending on the particular stock's movement during the day. But on a statistical basis looking at all of a firm's purchase and sale executions in all stocks for customers over a month, the comparison of overall execution price (including commissions and fees) to VWAP will illustrate what the firm's customers are incurring in total costs on average to execute their trades.

Payment for order flow has often been justified by its advocates based on the claim that the receipt of such payments allows brokers to keep commissions low and does not adversely affect execution quality (or if it does, such costs are passed back to customers in the form of lower commissions).

Although the current Rule 605 and Rule 606 statistics published by market centers and brokers are useful in some respects, they do not provide a basis for regulators to judge these claims, or for customers to judge their broker's performance. The Rule 606 routing statistics do not include execution quality or cost, and trying to match a broker's routing statistics with the execution quality statistics of the market centers to which that broker routes is essentially impossible (especially given the myriad categories and subcategories in the market centers' Rule 605 data).

⁶ Commissions and Fees is defined as the total over the month of all commissions plus all fees minus all rebates, all divided by the total Trade Money. All Other is defined as the Percentage Execution Cost minus the Commissions and Fees.

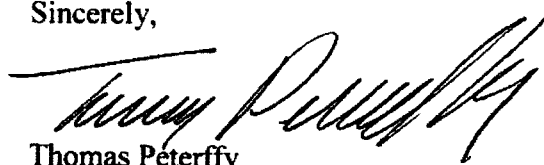
The virtue of the simple calculations we describe above is that they take into account all these effects - including the quality of the execution prices obtained by the broker, commissions, fees, rebates, etc. This should simplify the debate and eliminate the war of words, accusations and innuendos about various payment schemes, dark pools and broker and marketplace models. Any broker that chooses to do so can assemble and present its customers' total, all-in trading costs as a percentage of trade value. The Commission should consider requiring this on an ongoing basis.

In addition, the Commission, FINRA and/or other regulators could also require the production of this information on a retroactive basis in their current investigations of brokers' past execution practices. Brokers that have been routing orders to maximize their own receipt of payments rather than their customers' receipt of the best available execution price will become readily apparent because they will show significantly higher execution cost compared to VWAP.

Simple data is best, and the simple statistics described above will allow customers to understand exactly how much they are paying in commissions and other execution costs for the trade execution services their broker is providing. Customers can then weigh these execution costs against the value of any other services their brokers are providing.

I would be happy to discuss this proposal with you at your convenience if that is helpful.

Sincerely,



Thomas Peterffy
Chairman, Interactive Brokers Group

cc: Mary Jo White, Chair
Luis A. Aguilar, Commissioner
Daniel M. Gallagher, Commissioner
Kara M. Stein, Commissioner
Michael S. Piwowar, Commissioner
Jim Burns, Deputy Director, Division of Trading and Markets

INTERACTIVE BROKERS ALL-IN EXECUTION COST JANUARY – JULY 2014

Interactive Brokers Customers' Reg.-NMS Stock Trading Expense Detail

All amounts are in millions, except %

	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>2014 YTD</u>
#1a - Number of orders								
Buys	1.89	1.68	1.88	1.83	1.62	1.61	1.76	12.27
Sells	1.73	1.59	1.75	1.73	1.55	1.49	1.62	11.46
Total	3.62	3.27	3.63	3.56	3.17	3.10	3.38	23.73
#1b - Number of shares purchased or sold								
Shares bought	1,225	968	1,103	1,034	970	958	994	7,252
Shares sold	1,209	942	1,081	1,006	956	928	988	7,110
Total	2,434	1,910	2,184	2,040	1,926	1,886	1,982	14,362
#2 - Trade money including price, commissions and fees								
2a Buy money	\$51,371	\$40,136	\$39,492	\$44,680	\$36,818	\$36,765	\$38,783	\$288,045
2b Sell money	\$50,735	\$39,450	\$39,106	\$44,685	\$36,537	\$35,054	\$37,984	\$283,551
2c Total	\$102,106	\$79,586	\$78,598	\$89,365	\$73,355	\$71,819	\$76,767	\$571,596
#3 - Trade value at Daily VWAP								
3a Buy value	\$51,371	\$40,134	\$39,489	\$44,661	\$36,815	\$36,763	\$38,752	\$287,985
3b Sell value	\$50,743	\$39,459	\$39,105	\$44,664	\$36,543	\$35,060	\$37,964	\$283,538
3c Total	\$102,114	\$79,593	\$78,594	\$89,325	\$73,358	\$71,823	\$76,716	\$571,523
#4 - Total trade expense, including commissions and fees, relative to Daily VWAP								
4a Buys (2a-3a)	\$0.3	\$2.7	\$3.4	\$18.9	\$2.9	\$2.4	\$30.8	\$61.4
4b Sells (3b-2b)	\$8.0	\$9.1	(\$0.3)	(\$20.9)	\$5.5	\$6.5	(\$20.8)	(\$12.9)
4c Total trade expense	\$8.3	\$11.8	\$3.1	(\$2.0)	\$8.4	\$8.9	\$10.0	\$48.5
Trade expense as percentage of trade money								
4c/2c	0.008%	0.015%	0.004%	-0.002%	0.011%	0.012%	0.013%	0.008%
#5 - Trade expense categories								
5a Total commissions & fees	\$10.0	\$8.6	\$9.9	\$9.3	\$8.0	\$8.1	\$8.6	\$62.5
5b Execution cost (4c-5a)	(\$1.7)	\$3.2	(\$6.8)	(\$11.3)	\$0.4	\$0.8	\$1.4	(\$14.0)
#6 - Trade expense categories as percentage of trade money								
Total commissions & fees (5a/2c)	0.010%	0.011%	0.013%	0.010%	0.010%	0.011%	0.011%	0.011%
Execution cost (5b/2c)	-0.002%	0.004%	-0.009%	-0.012%	0.001%	0.001%	0.002%	-0.003%
Net Expense to IB Customers	0.008%	0.015%	0.004%	-0.002%	0.011%	0.012%	0.013%	0.008%