Securities and Exchange Commission
100 F Street, N.E.
Washington D.C. 20549
United States of America

For the attention of: Ms. Vanessa Countryman
Secretary

31 March 2023

SUBJECT: Comments on the proposed Order Competition Rule
File No. S7-31-22
Release No. 34-96459

I. Executive summary

OUR UNDERSTANDING OF THE PROPOSED ORDER COMPETITION RULE

We understand that the goal of the proposed Order Competition Rule is to increase transparency, eliminate conflict of interest and create a level playing field on US equity markets by establishing a more competitive market structure for NMS stocks with the intention to deliver additional price improvement to the investing public. We also understand that the Securities and Exchange Commission (hereinafter **SEC**) is seeking to get insights from individual investors and is interested to hear their views on the Proposed Order Competition Rule. [1]

HOW WE WOULD LIKE TO DELIVER VALUE TO THE SEC

We believe that our proprietary database combined with our analytical capabilities put us in a good position to bring the individual investor's perspective to the table as well as to shed light on the likely impact of the proposed Order Competition Rule on the wider brokerage market.

As an international, independent[2], data-driven and customer-focused brokerage comparison platform, we analyse a vast amount of customer data to identify customer problems, needs and preferences mostly via our proprietary tools available on our platform (such as our *'Find My Broker'*[3] or *'Compare Brokers'*[4] tool). In addition, we continuously conduct customer interviews and online surveys to get further insights helping us to develop a deeper understanding of our customers.

In order to identify long-term trends and develop a holistic view of the industry, we regularly review reports and regulatory filings published by dozens of brokerage service providers. Currently, we

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[1] https://www.bloomberg.com/news/articles/2023-03-02/sec-chief-says-he-s-open-to-trading-revamp-tweaks-amid-criticism

[2] All the information made available by BrokerChooser are based on our proprietary professional methodology, which is unbiased, prepared in accordance with the best interest of our customers and most importantly fully independent from the remuneration structure we have in place with our partners.

[3] Our *'Find My Broker'* tool is available at: https://brokerchooser.com/find-my-broker.
Overall, 15,873 and 14,224 US customer used our *'Find My Broker'* tool in 2021 and 2022 respectively. Please note however that (i) minority of US customers are either experienced or professional customers and they are not included in our analysis and (ii) not every beginner US customer answered all the relevant questions included in the tool hence the actual pool of customers related data we used to draw conclusions here might differ and be less than the original sample.

[4] https://brokerchooser.com/compare

analyse and rank on our platform 29 brokerage service provider active on the US market.[5] Our methodology[6] (which includes live testing by way of mystery shopping) reviews 497 data points per brokerage service provider culminating in an overall score assigned to each of them by our proprietary scoring algorithm. Data points are covering the following areas, fees, safety and soundness, deposit and withdrawal process, trading platform, account opening process, available product portfolio, quality of customer service, quality and quantity of educational and research materials.

OUR OVERALL ASSESSMENT

We are of the opinion that the likely impact of the proposed Order Competition Rule is net positive because it is addressing existing problems that US customers are either be affected by or concerned about while not taking away important developments and benefits customers are enjoying while investing and trading on US equity markets today.

CUSTOMER RELATED INSIGHTS SUPPORTING OUR ASSESSMENT

Data on US customers show that the proposed Order Competition Rule is highly relevant to US customers' needs and preferences because:

(a) it deals with deficiencies on US equity markets where the asset class preferred by the majority (53.6%) of US customers is traded;
(b) within the US equity markets structure, it addresses the infrastructure of retail order execution, the fair and transparent functioning of which matters US customers to a great extent due to their preference for frequent trading (57.8% of them preferring either day or swing trading) and;
(c) within retail order execution, it aims at increasing the price improvement delivered to US customers whose majority (62.1%) is highly fee sensitive and has a strong preference of either eliminating or keeping all costs associated with trading at a minimum.

BROKERAGE MARKET RELATED INSIGHTS SUPPORTING OUR ASSESSMENT

Our analysis of revenue streams, brokerage business models and trends relating to the provision of brokerage services supports our assumption that the proposed Order Competition Rule would not:

(a) end zero commission trading as it is not dependent on equity trading related payment for order flow revenue but rather subsidized by diversified business models with multiple revenue streams;
(b) eliminate payment for order flow revenue as the vast majority of such revenue seems to be generated by trading of assets other than equity (such as options, cryptocurrencies etc.);
(c) impair the trend to offer customers easy access to equity markets via user friendly, digital and easy to use trading solutions since competition fuelled by strong customer demand made this a key feature of customer acquisition.

[5] https://brokerchooser.com/broker-reviews
[6] https://brokerchooser.com/methodology

II. Customer related insights[7]

Based on the data we have collected in 2021 and 2022 via our proprietary broker recommendation algorithm powering our *'Find My Broker'* tool, we have looked into changes and trends regarding certain key preferences of beginner US customers when looking after a brokerage service provider. Beginner customer in this context means a US customer who is either a first timer with no experience or a starter only made a few simple transactions before using our tool.

ASSET PREFERENCE

(1) Majority of US customers choose *stocks and ETFs* as the most important assets they would like to own although the actual number here decreased quite considerably (from 64.8% to 53.6%) from 2021 to 2022.

(2) The asset class which gained the most in popularity among US customers from 2021 to 2022 was *options and futures* since 19.3% of US customers were interested in trading them in 2022 as compared to 9.8% in 2021.

(3) There was a sizeable (33%) increase in the number of US customer interested in dealing in *contract for differences* however the absolute numbers are still quite small here (0.8% and 1.2% for 2021 and 2022 respectively).

(4) Customer interest regarding all the other asset classes such as *mutual funds*, *forex* and *crypto assets* remained roughly unchanged during the reviewed period.

Overall, there is still a strong leaning towards *stocks and ETFs* among US customers, however this is accompanied by a rising interest in adding *options and futures* as well as *CFDs* to their portfolio.

FEE PREFERENCE

(1) In 2021, 43.3% of US customers said that they are fine with reasonable fees if services provided by the brokerage service provider are exceptional whereas 56.7% of them stated that they want to pay as little (for such services) as possible given that they only need basic functions.

(2) In 2022, the distribution of the results received from US customers became more diverse because of the increased number of potential answers included in our *'Find My Broker'* tool:

(a) 30.9% of them stated that they are fine with reasonable fees if services provided by the brokerage service provider are exceptional;
(b) 38.7% of them stated that they want to pay as little (for such services) as possible given that they only need basic functions;
(c) 23.4% of them stated that they want a zero commission broker and pay only for what is absolutely necessary;
(d) 7% of them expressed no preference (by opting for the *'I do not know'* option).

[7] Please note that percentage values were rounded up here for the sake of simplicity.

The data from 2022 clearly shows that US customers are highly fee sensitive, less than one third of them is comfortable with paying reasonable fees and only for exceptional services in return. The majority of customers (62.1%) has a strong preference for minimising the applicable fee level by either using only basic functions or opting for a zero commission broker.

PREFERRED LEVEL OF INVESTING ACTIVITY

(1) In 2021, the slight majority of US customers had a long term investment horizon claiming that they want to deal with their investments either on a monthly (23.9%) or a yearly (28.6%) basis. US customers on the more active end of the spectrum consisted of day traders (28.9%) and swing traders who wanted to deal with their investments on a weekly basis (18.6%).

(2) In 2022, 18.4% of US customers indicated preference for monthly and 21.4% for yearly investment activity whereas the number of day traders increased to 36% along with the number of swing traders (with a weekly investment activity) to 21.8%. It also needs to be mentioned that 2.4% of US customers expressed no preference in this respect (by opting for the *'I do not know'* option).

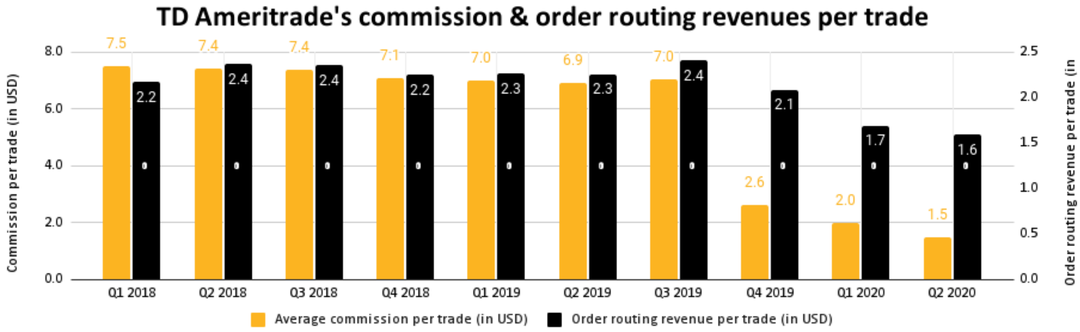
The split between short-term and long-term investing focus turned around in 2022 since the majority (57.8%) of US customers has preference for short-term investing activity as compared to 47.5% in 2021.

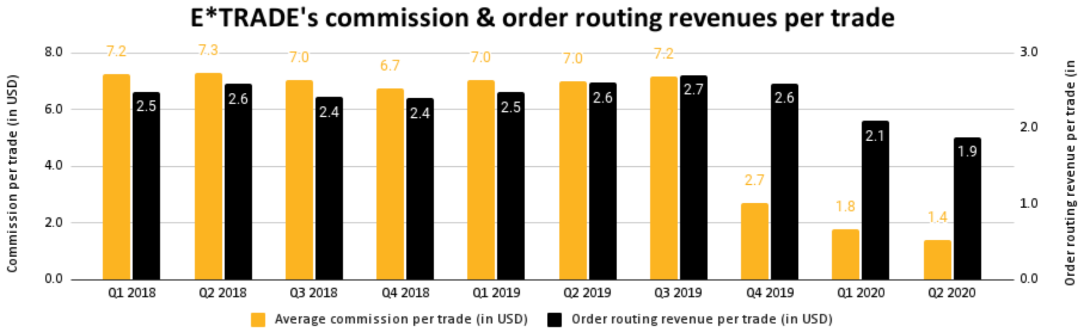
III. Brokerage market related insights

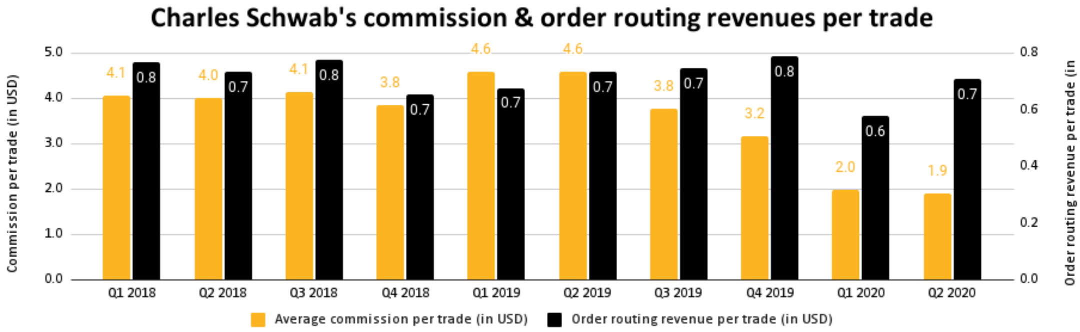
ORDER ROUTING REVENUES AND TRADING COMMISSIONS

(1) We reviewed how per trade amounts of order routing and trading commission revenues developed relative to each other at three US retail brokerage service provider between Q1 2018 and Q2 2020 with the aim of finding out whether the trend of declining trading commissions was accompanied by a corresponding increase in order routing revenues earned on each trade.

(2) The time period for our analysis was determined to include the time when trading commissions were cut back drastically (i.e. Q4 2019) and to end before the Charles Schwab – TD Ameritrade and E*TRADE – Morgan Stanley mergers were completed (i.e. Q2 2020). We choose to review TD Ameritrade, E*TRADE and Charles Schwab since we considered them as being brokerage service providers targeting mostly retail customers and received relatively large amounts of order routing revenue in the aggregate.







(3) What we have seen from the numbers is that both the per trade amount of trading commission and order routing revenues were relatively constant (despite minor swings) until Q4 2019.

(4) Our main finding was that the cut back in trading commissions in Q4 2019 did not lead to a corresponding increase in the per trade amount of order routing revenue. On the contrary, the per trade amount of order routing revenue also decreased after Q4 2019. What this is telling us is that brokerage service providers did not use order routing revenues to offset the decline in trading commissions they have suffered due to increased competition. This also means that such brokerage service providers (and brokerage service providers in general) needed to look elsewhere to make up for the lost trading commission revenue.

‘IT’S THE CHEAPER AND BETTER ONES THAT ALWAYS WIN THE COMPETITION’[8]

(1) One of the major concerns raised by commenters and industry players so far seems to be that the proposed Order Competition rule might bring back trading commissions or limit the availability of zero commission trading by upending the business model used by retail brokerage service providers[9].

(2) Accordingly, we decided to have a brief look into the history and current status of the institution of zero commission trading. In general, we agree with the prevailing consensus that the fact that zero commission became the norm within the brokerage industry is a result of a natural progression of regulatory and competitive forces over the course of decades.[10]

(3) Speaking of competitive forces, challenging established brokerage service providers primarily with price competition is not a recent phenomenon as it can be traced back to 2006 when Zecco.com (pioneer neo-broker at the time) announced the launch of its zero commission trading platform. However, potential risks concerning the feasibility of its business model raised back then (such as the necessity of a raging bull market that gets everyone trading to make it profitable, the need for diversification of revenue streams to support zero commission trading etc.[11]) have materialised and quickly forced Zecco.com to slash its zero commission trading offering.[12]

(4) Not surprisingly, similar concerns were raised back then with respect to Robinhood after it has reached headlines with its surging popularity (especially among younger generations).[13] Looking at the actual numbers, some of such concerns seem to be justified in retrospect since Robinhood’s business model was not able to generate meaningful profits during the COVID-19 pandemic lockdowns, the GameStop related trading frenzy in early 2021 or the crypto bull market throughout 2021.[14]

(5) By taking a closer look at the revenue stream mixes of three US brokerage service providers it can be concluded that zero-commission trading seems to become a game of cross-subsidy meaning that retail trading kept affordable by brokerage service providers operating with different mixes of revenue streams and cross-subsidization specific to their target customer profile.[15] We have included brokerage service providers in this comparison[16] who are exchange listed hence operating with an increased level of transparency. Among them, Charles Schwab and Robinhood can be considered as retail brokerage service providers whereas Interactive Brokers is more focused on professional and experienced customers.

[8] Mr. Thomas Peterffy, founder and chairman of Interactive Brokers Group Inc quoted by Declan Harty in his article titled *‘Pandemic retail trading boom remakes brokerage landscape’* available at https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/pandemic-retail-trading-boom-remakes-brokerage-landscape-63482952
[9] https://www.wsj.com/articles/robinhood-hits-back-at-sec-warns-of-threat-to-zero-commission-trading-11675747896
[10] Greenwich Associates: The Impact of Zero Commission on Retail Trading and Execution (Q1 2020, page 3)
[11] https://techcrunch.com/2006/09/22/3014/
[12] https://www.bloomberg.com/news/articles/2007-10-02/zecco-a-little-less-freebusinessweek-business-news-stock-market-and-financial-advice
[13] https://www.nytimes.com/2017/02/18/business/robinhood-stock-trading-app.html
[14] Total net income of Robinhood Inc were USD 7 million in 2020 whereas the company made a loss of USD 3.6 billion and 1 billion in 2021 and 2022 respectively. The SEC 10K report of Robinhood Inc is available at: https://investors.robinhood.com/financials/sec-filings/default.aspx
[15] https://www.kalzumeus.com/2019/6/26/how-brokerages-make-money/
[16] BrokerChooser analysis using publicly available reports and regulatory filings. Please note that percentage values were rounded up here for the sake of simplicity.

BROKER NAME	SELECTED REVENUE STREAMS (AS % OF THE TOTAL NET REVENUE)							
	NET INTEREST		TRADING COMMISSION		EQUITY PFOF		OTHER	
Interactive Brokers	2021:	**42.3%**	2021:	**49.7%**	2021:	**1.5%**	2021:	**6.5%**
	2022:	**54.4%**	2022:	**43.1%**	2022:	**1.2%**	2022:	**1.3%**
Charles Schwab	2021:	**43.4%**	2021:	**11%**	2021:	**4%**	2021:	**41.6%**
	2022:	**51.4%**	2022:	**8.6%**	2022:	**2.7%**	2022:	**37.3%**
Robinhood	2021:	**14.1%**	2021:	**-**	2021:	**15.8%**	2021:	**70.1%**
	2022:	**31.2%**	2022:	**-**	2022:	**8.6%**	2022:	**60.2%**

(6) In general, we have seen that the importance of the net interest revenue is rising (even at Interactive Brokers whose customer base mainly consists of professional customers entailing that trading commission represent a bigger portion of its total net revenue).
Here, we would like to briefly refer to the ongoing crisis of confidence in the banking sector (caused by the collapse of Silicon Valley Bank) as market events like this might further strengthen the importance of net interest revenue given that depositors might move their deposits from their banks to their brokerage accounts.
Interactive Brokers recalls that during the financial crisis of 2008 customers were removing funds and equity from bank- affiliated brokerage service providers to deposit such assets with Interactive Brokers as a safe haven. As a result, customer equity and cash increased by 77% and 65% respectively from November 2008-November 2009 at Interactive Brokers.[17]

(7) The above numbers reveal that payment for order flow revenue stemming from equity trading represents only a minority of the total net revenue (even at Robinhood whose business model is heavily reliant on payment for order flow revenue in general).

(8) The category of other revenues[18] encompasses a wide variety of different revenue sources and it does represent a significant portion of the total net revenue at Charles Schwab and Robinhood. It must be noted that payment for order flow revenue associated with assets other than equity was also included in this category given that they are not going to be affected by the potential implementation of the proposed Order Competition Rule.

(9) However, it must be noted that Robinhood is different from Charles Schwab as a result of its heavy reliance on payment for order flow revenue in general.
The table below gives a short summary[19] about the split of payment for order flow revenue generated by Robinhood according to the different asset classes customers are able to trade at Robinhood.

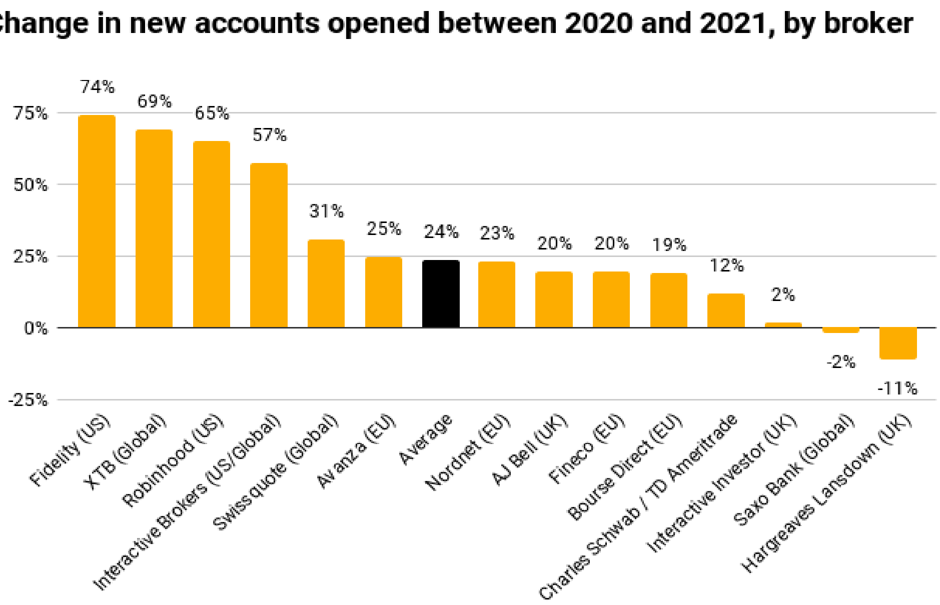
[17] https://www.interactivebrokers.com/en/general/security-investor-protection.php
[18] In case of Charles Schwab other revenues include (among others): (i) asset management and advisory fees; (ii) payment for order flow revenues related to options trading (iii) revenue from principal transactions; (iv) bank deposit account fees; (v) exchange processing fees, (vi) service fees; (vii) gains on asset sales.
In case of Interactive Brokers other revenues include (among others): (i) market data fees; (ii) risk exposure fees; (iii) minimum activity fees; (iv) other fees and services charged to customers.
In case of Robinhood other revenues include (among others): (i) payment for order flow revenues related to options trading and assets other than equity; (ii) trading rebate revenues related to cryptocurrency transactions (iii) Robinhood Gold subscription fees; (iv) proxy rebates and revenues; (v) fees charged on customer portfolio transfers (ACATS fees).
[19] Robinhood Inc 10K regulatory filing available at https://investors.robinhood.com/financials/sec-filings/default.aspx.

The majority of the payment for order flow revenue is not generated by equity trading. The share of equity related payment for order flow revenue out of the total net revenue has also decreased by 65% between 2020 and 2022. Given that customer demand for options trading seems to remain strong, we expect this trend to continue.[20] Furthermore, we also see from customer data that the number of US customers (looking after a brokerage service provider on our platform) interested in options trading more than doubled from 2021 to 2022.

ASSET CLASS	ASSET CLASS SPCIFIC PFOF REVENUE (AS % OF THE TOTAL NET REVENUE)		
	2020	2021	2022
EQUITY	26%	16%	9%
OPTIONS	46%	38%	36%
CRYPTOCURRENCY	3%	23%	15%
OVERALL	75%	77%	60%

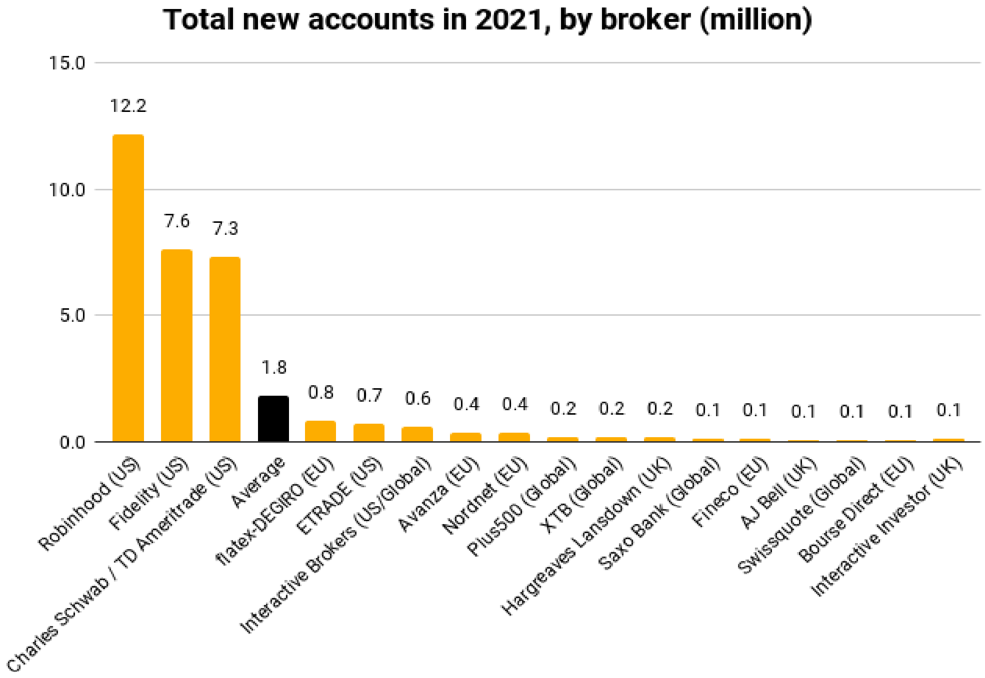
CUSTOMER BASE GROWTH

(1) The meteoric rise in new account openings and trading activity from 2020 to 2021 is well documented and was also closely followed by BrokerChooser.[21] In general, we see the end result (i.e. increased equity market penetration) as a positive development which might be beneficial to the wider economy including customers, brokerage service providers and market infrastructure providers.



[20] https://www.bloomberg.com/news/articles/2023-02-07/wall-street-brokers-are-netting-big-profits-in-retail-options-boom

[21] Our analyses included in this section is relying on publicly available data (mostly quarterly and annual reports published by brokerage service providers and regulatory filings).



(2) This development was supported by a variety of factors including (i) popularity of ETFs and fractional share ownership, (ii) zero commission trading, (iii) proliferation of mobile based, user friendly digital trading solutions, (iv) lockdowns and fiscal stimulus provided to US households during the COVID-19 pandemic, (v) the impact of social media (such as Reddit) partially transforming investing into a form of entertainment serving as a mean used by retail investors to fight general boredom caused by lockdowns. [22]

(3) Among these factors, we would like to highlight the importance of customer centric, informative and easy to use digital trading solutions in fuelling this growth by gaining popularity especially with younger generations and customers with less investing experience.[23]

STRONG CUSTOMER DEMAND FOR USER FRIENDLY DIGITAL SOLUTIONS

(1) A brokerage market analysis we have conducted in 2022 focusing on the account opening and account verification processes at 19 different brokerage service providers showed that providers with user friendly, easy to use digital solutions had five times better conversion rate compared to their peers with (sometimes) poorly-designed and more complex solutions.
Five times better conversion rate in this context meant that the number of customers successfully finishing the account opening process and starting investing was five times higher at brokerage service providers with well-designed user friendly digital solutions compared to their peers.

[22] https://www.bloomberg.com/opinion/articles/2020-04-30/if-you-re-bored-you-can-trade-stocks?sref=1kJVNqnU
[23] FINRA Report: Investors in the United States: The Changing Landscape (December 2022) highlighted (on page 10) that 78% of respondents between the age of 18 and 34 and 82% of respondents with less than 2 years of investing experience preferred to trade on a mobile app. The Report is available at https://www.finrafoundation.org/sites/finrafoundation/files/NFCS-Investor-Report-Changing-Landscape.pdf

(2) In order to better understand the reasons behind this gap, we have conducted additional customer interviews and online surveys as well as analysed other quantitative data on customer preferences. These interviews were conducted primarily with the aim of getting an even clearer picture about customers' experience with onboarding and account opening processes at brokerage service providers and also mapping out their needs and expectations better with respect to the set up and usability of the brokerage platforms.

(3) The results supported our assumption that mainly administrative and operational complexity[24] prevent customers to either start their investing journey or stay on the path. The results also revealed that interviewees under the age of 35 has a strong preference for user friendly, easy to use, mobile based brokerage platforms with clean, simple and seamless interface.

(4) The above was also confirmed by quantitative data we collected in 2021 and 2022 on global customers setting their preferences based on which they were selecting brokerage service providers using our *'Find My Broker'* tool. What we have found is that from 2021 to 2022 there was a 15 % increase in the number of customers marking fast and digital account opening processes, easy instant deposit and withdrawal methods and user friendly solutions as their primary preference.

(5) Digital trading solutions with clean design, simple, modern and friendly interface and easy to use features seem to address existing customer problems and thereby removing barriers of entry for younger generations and customers with less investing experience.
Within this context (without engaging in a discussion about the moral aspects of the trend called *'gamification'*), we think Robinhood serves as good example for this phenomenon as it has set an example for the brokerage industry on how to come up with a solution to reach out to new categories of customers by designing brokerage services catering to their needs.[25]

IV. Overall assessment

We are of the opinion that the likely impact of the proposed Order Competition Rule is net positive because it is addressing existing problems which US customers are either be affected by or concerned about while not taking away important developments and benefits customers are enjoying while investing and trading on US equity markets today.

Equity trading oriented and highly fee sensitive US customers will have their orders executed in a fairer, more transparent and more competitive market structure designed to lower their costs associated with trading and investing. We believe that more transparency could certainly lead to increased customer confidence in US equity markets and that the market structure underpinning those markets is working for the customer.

We find it unlikely that the potential implementation of the proposed Order Competition Rule will bring back trading commissions for numerous reasons including the fee sensitivity of US customers,

[24] Such as not knowing why knowledge related questions are asked, not understanding why and what documents needed to be uploaded, the overall process being too lengthy and complex, too many forms must be populated and uploaded, in general platforms were not being user friendly and designed to facilitate customer experience.

[25] https://www.bloomberg.com/opinion/articles/2020-12-17/robinhood-is-democratizing-markets-not-making-them-a-game#footnote-2
https://www.behance.net/blog/how-robinhood-emphasizes-design-to-make-stock-trading-more-accessible

the heated competition on the retail brokerage market (with the presence of brokerage service providers offering zero commission trading without relying on payment for order flow revenue[26]), diversified revenue streams subsidizing zero commission trading, the insignificance of the equity trading related payment for order flow revenue relative to the total net revenue.

We also think that the prevalence of digital trading solutions with clean and simple design, modern and friendly interface and easy to use features is not going to impacted given that the strong customer demand made this a key feature of customer acquisition on the brokerage market.

[26] https://help.public.com/en/articles/3701324-how-does-public-make-money

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