

**AMENDMENT IN THE NATURE OF A SUBSTITUTE
TO H.R. 4617
OFFERED BY MR. SHERMAN OF CALIFORNIA**

Strike all after the enacting clause and insert the following:

1 SECTION 1. SHORT TITLE.

2 This Act may be cited as the “Order Flow Improve-
3 ment Act”.

4 SEC. 2. STUDIES AND REPORTS.

5 (a) IN GENERAL.—The Securities and Exchange
6 Commission shall carry out a study on payment for order
7 flow received by brokerage firms for routing customer or-
8 ders to market centers, including wholesale brokerages, al-
9 ternative trading systems, internalizers, and exchanges,
10 including—

11 (1) payment for order flow arrangements;

12 (2) conflicts arising from these payment ar-
13 rangements;

14 (3) the extent to which execution prices for bro-
15 kerage firm customers are reflective of the best
16 available market price;

17 (4) the impact of payment for order flow ar-
18 rangements on customer trade execution quality;

1 (5) steps firms are taking to mitigate or elimi-
2 nate conflicts stemming from these arrangements;

3 (6) how brokerage firms disclose payment for
4 order flow to customers;

5 (7) whether customers understand the disclo-
6 sures provided by brokerage firms regarding pay-
7 ment for order flow;

8 (8) the disclosure requirements pursuant to
9 Rule 606 of Regulation NMS (17 CFR 242.606);

10 (9) whether firms are adequately disclosing pay-
11 ment for order flow on Form CRS, to the extent a
12 brokerage account is subject to Form CRS obliga-
13 tions;

14 (10) steps brokerage firms are taking, if any, to
15 limit how market centers use the brokerage firms'
16 customer's data;

17 (11) the extent to which brokers are surveying
18 different market centers for best prices prior to
19 routing specific customer orders;

20 (12) the extent to which payment for order flow
21 may create or exacerbate market segmentation, and
22 how that impacts lit and dark markets;

23 (13) how payment for order flow impacts com-
24 petition among brokers, dealers, and other relevant
25 market participants;

1 (14) the extent to which these economic induce-
2 ments exacerbate concentration among specific mar-
3 ket centers and erect barriers to entry for new,
4 small, or innovative entrants;

5 (15) the extent to which these economic induce-
6 ments impact market integrity and market stability;
7 and

8 (16) whether disclosures to customers by bro-
9 kerage firms regarding the amount of price improve-
10 ment the customer received on an order-by-order
11 basis would benefit retail investors in their ability to
12 compare the costs and benefits of services offered by
13 different brokerage firms.

14 (b) REPORT.—Not later than the end of the 180-day
15 period beginning on the date of enactment of this Act, the
16 Commission shall issue a report to the Congress con-
17 taining all findings and determinations made in carrying
18 out the study required under subsection (a).

19 (c) RULEMAKING.—Not later than 18 months after
20 the date of enactment of this Act, the Securities and Ex-
21 change Commission shall issue rules, subject to notice and
22 comment, to revise its rules consistent with the results of
23 such study, including, if warranted, to prohibit or limit
24 the payment for order flow.

1 (d) CLARIFICATION OF AUTHORITY.—The Commis-
2 sion may issue rules to regulate, limit, or prohibit the pay-
3 ment for order flow before the completion of the study re-
4 quired under this section, if the Commission finds such
5 a rule is necessary or appropriate in the public interest
6 or for the protection of investors.

