Title: FINRA Posts Another Best Execution Notice
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FINRA has just put out [another notice](https://www.finra.org/rules-guidance/notices/21-23) on Payment for Order Flow and Best Execution. They are reminding broker-dealers of their best execution obligations. There are a couple of interesting things in this notice, although I'm not optimistic this will lead to anything material.

For one, they italicize *best* execution here, which is interesting:

https://preview.redd.it/buj7ishg21a71.png?width=827&format;=png&auto;=webp&s;=93b59367e9eb608eca7206f42a0c883f97f0366e

I've often criticized (including to FINRA and SEC personnel) the fact that most brokers are only identifying good-enough prices and good-enough execution, not best execution. It looks like FINRA is echoing that here.

The most important passage is this one, in my mind:

https://preview.redd.it/5vifzigm21a71.png?width=834&format;=png&auto;=webp&s;=287d21a3796169c4a6c51b3ca49d38e2bc188107

Let me explain something quickly. When Citadel or Virtu gets an order from a retail broker, they have a profit margin on that order. Let's say the spread is $0.02 wide, and they think they can make $0.015 per share, on average. Of that $0.015, they want $0.01 per share as profit to keep, and are willing to pay back $0.005 per share to the broker. (all of these numbers are made up, for illustrative purposes)

Citadel and Virtu don't care if they are sending that $0.005 per share to the broker as price improvement (where the retail investor receives it) or payment for order flow (where the broker receives it).

FINRA is saying that brokers CANNOT negotiate higher payment for order flow instead of price improvement. This is actually a big deal, because it's the foundation of Robinhood's business model. If they have to provide the same price improvement as, say, Fidelity, who doesn't accept PFOF, then they'll go out of business. The fundamental paradox between a firm that accepts PFOF and one that doesn't is that the firm that doesn't gives its customers better execution prices, and therefore better execution. So a firm that accepts PFOF, by definition, cannot be providing *best* execution. It's mathematically impossible.

This could be an important step. Or it could be a regulatory nothingburger. But if it's a nothingburger, it could provide some fuel for class action lawsuits down the road, so ultimately this is a positive development.