STA
Security Traders Association
Dictum Meum Pactum Since 1934

April 30, 2013

Elizabeth M. Murphy
Federal Advisory Committee Management Officer
Securities and Exchange Commission
100 F Street, NE, Washington, DC 20549-1090

Re: Securities and Exchange Commission Small Business Advisory Committee;
File Number 265-27

Dear Ms. Murphy,

The Security Traders Association ("STA") wishes to offer comment on several of the recommendations made by the Commission's Small Business Advisory Committee under file number 265-27. The STA also respectfully inquires on the Commission's stance on whether a pilot program to study the impact of decimalization with no minimum price variations ("MPVs") is a course of action that should be taken. Having definitive guidance on this open issue will enable industry participants to respond accordingly.

Executive Summary and Background

On June 20, 2012 the STA testified alongside industry leaders before the Subcommittee on Capital Markets and Government Sponsored Enterprises at a hearing on: "Market Structure: Ensuring Orderly, Efficient, Innovative and Competitive Markets for Issuers and Investors". In our testimony[1] we highlighted three (3) areas where our financial markets could function more efficiently with regards to capital formation and instilling greater investor confidence. One area was the impact decimalization with no MPVs has had on the capital formation process in companies who meet the criteria of emerging growth companies under the Jumpstart Our Business Startups Act ("JOBS Act"). In our testimony we recommended that the SEC conduct a pilot program to determine the impact decimalization with no MPVs has had on the capital formation process for such companies. Conducting a pilot study we felt then, as we do today, best

[1] June 20, 2012 Testimony

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ensures that any change to market structure regarding MPVs would be based on empirical data and implemented in a prudent fashion which ultimately fosters investor confidence.

Since our June 20, 2012 testimony, the STA issued a comment letter[2] in response to the JOBS Act Section 106 Report to Congress on Decimalization ("Study"), which was issued by Staff of the U.S. Securities and Exchange Commission on July 20, 2012. The Study examined the effects of decimalization on initial public offerings ("IPOs") of small and middle capitalization companies. STA issued a comment letter[3] to Chairman Schapiro dated November 20, 2012 on the Study. In our letter, the STA concurred with a recommendation in the Study that the Commission hold a roundtable to provide an opportunity for the industry and other interested persons to provide input on how a pilot program could be best conducted. The STA was pleased the Commission held such a Roundtable on February 5, 2013 and we will submit formal comments in the near future on its statements. Finally, the STA remains publically supportive of the actions taken by the Commission with regards to this topic as demonstrated in an interview conducted with the TABB Group on February 6, 2013.[4]

STA's Letter Writing History and Process

The STA has a long history of offering comments on complex market structure issues. Over the course of that history we have acquired a list of Principles for Rulemaking that we refer to in all our letters which ensures continuity and integrity in our comments. This library of letters when coupled with the input we receive from our various committees comprised of market participants with varying roles and diverse business creates a powerful and holistic view of issues. It is a true "bottom up" approach.

Historically, in situations where rules are being discussed or designed in response to particular flaw in market structure, STA conducts an informal balance test which weighs a recommended course of action against the level of urgency of that flaw that needs to be rectified. While we feel improving capital formation is critical to our country's economic stability, we still decided that a pilot study, despite the challenges in its design and lengthy time line to execute, was the best approach to take for introducing MPVs into the current structure. To reiterate, we recognize there are challenges in designing an effective pilot program to study decimalization with MPVs

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[2] STA Comment Letter; "Tick size study mandated by the Jumpstart our Business Startup Act of 2012"
[3] STA letter to Chairman Schapiro; November 20, 2012
[4] TABB Forum Interview

and identifying data to measure any improvements or degradations it may have on the capital formation process.

The STA Board of Governors have solicited feedback from its committees and discussed how a pilot program should be designed. Committees have met on how a pilot should be designed, and while we continue to debate a recommended approach, the one area where there is complete unity is that a pilot program should be conducted. We as an industry association with a diverse membership as measured by geography and business model believe there is broad consensus that today's market structure does not serve emerging growth companies or their potential investors well and that pilot study should be conducted. To be clear, the debate among our committees and Board is strictly limited to "how" a pilot study should be conducted. The question of "should" a pilot study be conducted has universal support.

As an organization, we are willing to maintain this stance if it is one that is shared by the Commission. If not, we respectfully ask to be informed. Having such feedback will assist us greatly in how we choose to contribute our views and efforts on this topic in the public domain.

Comments to Recommendations by the Small Business Advisory Committee

In its January meeting, the Small Business Advisory offered several recommendations to the Commission two of which were:

> *"The Commission adopt rules to increase tick sizes for smaller exchange-listed companies in the United States that will allow such companies to choose their own tick size within a range designated by the Commission".*
>
> *"The United States Securities and Exchange Commission should facilitate and encourage the creation of a separate U.S. Equity market or markets for smaller and emerging growth companies in which investors participation would be limited to sophisticated investors and small emerging companies who would be subject to a regulatory regime strict enough to protect such investors but flexible enough to accommodate innovation and growth by such companies*".

Allowing Companies to Choose Tick Size

STA does not feel that allowing companies to choose a trading characteristic - in this case, the ability to choose their tick size from a designated range identified by the Commission - is the optimal process for which changes in market structure should be introduced into the market. Providing such options empowers executives to make decisions on matters which they lack expertise in. In the case of tick sizes, decision making will prove increasing more difficult due to the fact that there is no data to assist an executive on a decision. Last, providing companies with such an option on tick sizes would set a precedent for perhaps allowing other trading variables to be determined by issuers. For example, should an issuer's shares trade in a regime which does not allow maker/taker practices or only on particular exchanges.

While it is our view that empowering companies with the ability of choosing their tick sizes from a designated range by the Commission is not the optimal approach for introducing MPVs into the market, such a process does have certain benefits that should be considered in the design of pilot program. In particular, it affords flexibility to parties whose interests are closely aligned with individual investors, the issuer. Second, by the Commission creating a designated range of tick sizes across all exchanges, provides an orderly process which investors would find less confusing. This combination of flexibility and Commission oversight are attributes which should be considered in the design of a pilot program.

Creating or encouraging a separate market or markets

The STA opposes creating or encouraging a separate market or markets for emerging growth companies and sophisticated investors. A primary goal of wider MPVs is to increase overall liquidity for investors in these types of securities. A contributing factor in the amount of overall liquidity available is the capital commitment which comes from a subsector of trading centers: market makers, both electronic and traditional; and block traders. Exchanges, while they meet our definition of a trading center and should be incentivized to list emerging growth companies, by their regulatory requirements are not allowed to commit capital in facilitating liquidity for individual investors. We believe individual investors are better served if the Commission looks for ways to incentivize market making and their capital commitment function. Therefore, we recommend alternatives that would provide these incentives and maintain investor protection.

Conclusion

We respectfully ask that Commission issue a statement on whether a pilot study should be conducted.

We continue to recommend that the Commission conduct a pilot program to study the impacts of decimalization with no MPVs on emerging growth companies.

The question as to whether companies should be allowed to choose their own tick size from a list from the SEC is not an approach we would recommend, but needs to be vetted more.

We do not support the Commission creating or encouraging a separate market or markets for small securities.

Thank you,

Respectfully yours,

Thomas M Carter

Chairman of the Board

James Toes

President & CEO

cc: SEC Chairman Mary Jo White

cc: SEC Commissioner Elise Walter

cc: SEC Commissioner Luis Aguilar

cc: SEC Commissioner Daniel Gallagher

cc: SEC Commissioner Troy Paredes

cc: John Ramsey, Acting Director SEC Trading & Markets, John Ramsey

cc: Jim Burns, Deputy Director SEC Trading & Markets