TD Ameritrade

February 4, 2013

Via Electronic Mail

Ms. Elizabeth Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Re: *Roundtable on Decimalization*

Dear Ms. Murphy:

TD Ameritrade, Inc. [1] ("TD Ameritrade" or "the Firm") appreciates the opportunity to participate in the upcoming Roundtable on Decimalization and submit the following comments. The Firm strongly supports the U.S. Securities and Exchange Commission's ("Commission") review of the impact of decimalization as required by the Jumpstart Our Business Startups Act ("JOBS Act"). Clearly, decimalization has had a positive impact on the markets and likely has put millions of dollars into the pockets of retail investors. Although no one disputes the positive impact that decimalization has had on the trading of highly liquid securities, there is less consensus concerning less liquid securities typically of smaller capitalization. As discussed below, TD Ameritrade believes that a well-designed pilot program to examine wider minimum spreads in less liquid securities is warranted.

It has been almost twelve years since the U.S. securities markets began trading in one penny increments. By any measure, trading in pennies has been a rousing success. As suspected, after decimalization, spreads became tighter, meaning retail investors received slightly more when selling securities, and were able to purchase securities at a slightly cheaper price. The impact in highly liquid securities has been significant. But decimalization has come at a cost. For the highly liquid securities, it has meant flickering quotes. For the smaller capitalization companies that are less liquid, the impression is that there is less liquidity at the inside quote as market makers have the disincentive to post size.

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[1] TD Ameritrade Holding Corporation, through its broker-dealer and investment adviser subsidiaries, offers investors and independent registered investment advisors ("RIAs") technology, people and education to help make investing and trading easier to understand and do. Online or over the phone. In a branch or with an independent RIA. First-timer or sophisticated trader. Our clients want to take control, and we help them decide how – bringing Wall Street to Main Street for more than 36 years. TD Ameritrade, Inc. serves an investor base of over 5.8 million funded accounts with approximately $481 billion in assets. During the quarter ended December 2012, TD Ameritrade, Inc. averaged a total of 334,000 client trades per day.

Given this twelve years of experience, it is no surprise that the U.S. Congress has challenged the Commission to review the impact of decimalization, with a particular focus on how decimalization has impacted the market for initial public offerings and the trading in small and middle capitalization company securities. TD Ameritrade believes that there appears to be consensus for instituting a pilot program that will allow for a comprehensive study of whether there should be a tiering of trading increments related to trading volume, price, volatility and market capitalization.

I. BACKGROUND

Decimalization, the simultaneous rise of computer driven trading programs and resulting proliferation of algorithmic and high frequency trading make it hard to attribute the characteristics of today's market to any one factor. Decimalization has narrowed spreads, but the markets also have suffered from decreased size at the quote. During this period, the size just outside of the quote has all but disappeared. Therefore, with today's computer driven markets air pockets are much more common. It is easy to program behavior into a computer to stay on the quote but as things become disorderly outcomes are harder to predict, therefore, many firms will just cease to quote. With penny quotes there is little incentive to post a quote of any size because in a microsecond a better quote can come in and take the trade. This selection bias is one of the reasons for the quotes becoming much smaller in available size. The end result is smaller size, flickering quotes, much tighter spreads and more air pockets. Each player has been affected differently.

There is a perception in the press that retail investor confidence has been shaken by successive market events (*e.g.*, Flash Crash and Facebook IPO). At the same time, it is important to note the strengths of the current system. Retail investors have access to trading tools that years ago were only in the hands of professional traders. Moreover, the tightening of spreads and low commissions have made this access cost effective.

TD Ameritrade's typical retail client expects to receive the price they see on the computer screen, mobile phone or tablet, or better, filled quickly and for the entire size of the order. The last expectation is the hardest to achieve in today's markets. That is, obtaining a complete fill in one order is difficult when there is a lack of size at the inside bid or offer. In fact, the average TD Ameritrade client order of one thousand shares usually is filled in two executions.

II. PROPOSAL

As recognized by many international markets, price and liquidity of a security impacts how it is traded. There is no doubt that the trading characteristics of the following securities vary tremendously: Bank of America at $12; Google at $750; Celgene at $100; Exxon at $90; and Berkshire Hathaway at $147,000. One size fits all made sense before technology made it easy to customize quoting increments. The greater the tick size, the greater the cost of tick jumping, which ultimately results in more stable quotes. Larger tick sizes should encourage greater quotes because there are set aggregation points. The obvious cost is the spread. Stocks that presently are quoted in pennies but widths are often dimes would likely have no widening and possibly narrowing knowing that no one will slice the quote by a penny.

TD Ameritrade supports an increment reform pilot program that focuses on trading volume, price, volatility and to a lesser extent, market capitalization. The pilot program would be designed to examine whether trading in less liquid securities is impacted by the spread. A well-designed pilot program would be mandatory for all exchanges and market participants, and include criteria for choosing issuers without the ability to opt-in or opt-out of the program. The pilot program should have a defined duration, the same market-wide rules and clear evaluation methodology that does not bring it from pilot automatically to rule.

Please feel free to contact me at 773-244-7185 if you have any questions regarding these comments.

Respectfully Submitted,

/s/

Paul Jiganti
Managing Director, Market Structure and Client Advocacy
TD Ameritrade