November 18, 2014

Mr. Kevin M. O'Neill, Deputy Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

Re: "4-657 Plan to Implement a Tick Size Pilot Program"

Dear Mr. O'Neill,

I have over two decades experience as a proprietary trader. During this time, I have personally traded over one billion shares of NYSE listed stock and spent over 30,000 hours in front of a computer terminal observing the workings of our markets. While my academic qualifications are not on par with my fellow commentators, I will venture to say few have my level of first-hand experience regarding the execution of orders.

Although volume has grown since the transition to decimals in 2001, the real liquidity has increasingly diminished. I say the real liquidity because the current liquidity that is touted by proponents of one cent spreads and high frequency trading "HFT" is very much a myth. There is neither breadth nor depth to the markets; specialists and market-makers have no incentive to take the risk associated with creating either. While computer generated HFT orders partially fill the specialist / market-maker / creator role during periods of low volatility when their presence is least needed, their role as creators decreases as volatility increases to the point they become market takers. It is at this point that the market is most in need of a specialist / maker /creator.

There is currently no incentive for a market maker to display size of 5,000 shares when a computer will jump ahead by one cent, using the 5,000 shares as a backstop. Ultimately, these market making participants withdraw from the market or increase the spread and decrease the size to correspond to the appropriate risk / reward. A five cent increment would in effect multiply the risk for HFT by fivefold with regard to trading above the market maker's bid. I firmly believe this will inhibit the HFT's strategy of using the large order of another market participant to facilitate a low / no risk trade. This will increase the market maker's economic incentive to commit size and depth to the markets, which is needed for the markets to function properly.

There is a case to be made for one cent spreads on very thick, high market cap stocks with many market participants. This efficiency is welcome. In my firm opinion, one cent allowable spreads in thinner stocks only serves to *increase* the actual spread and substantially reduce the associated breadth and depth, ultimately driving market participants away.

With regard to test group eliminating sub cent trading, I believe on principle this should be eliminated across all markets. The only purpose of these “Retail Liquidity Programs”, is to front run the queue of orders on any given book and trade against the customer’s order, under the guise of “price improvement” for the customer. There needs to be a “meaningful price improvement”, not just the “price improvement” which currently facilitates sub cent or sub 1/10 cent trading to. Under the present rules, a customer placing an order to BUY 100 IBM @ 165 might get 164.995. This represents a 50 cent benefit to the customer on a $16,500 purchase. *What this minimal price improvement does not take into account is the opportunity cost for the participant offering the stock at $165, who has created the inside market, of not being filled*. This practice is no more than legal front-running on a technicality. As the “Tick Size Pilot Program” reads today, both Group One and Group Two will continue to allow this practice; no test group will entirely eliminate it, thus no potential benefit will be studied.

While I welcome the proposal for a Pilot Test Program, I am disappointed the “Pilot Program” which is now under review has a one year timeframe. As you are aware, House Resolution 3448: Small Cap Liquidity Reform Act of 2014, specified a five year plan. Letting the SRO’s (made up of for-profit exchanges) dictate a one year timeframe to you instead of you directing a five year timeframe to the SRO’s is unacceptable. I would encourage you to reconsider this element of the plan and reflect on your directive in H.R. 3448. This will better serve to examine the program under the light of many market environments.

Lastly, some clarification is needed as to the timeframe to implement this program. Under the plan, “ required to collect such data for dates starting six months prior to the Pilot Period” (*Pilot Program, Collection of Data, Part 4*) and “The initial date of the Tick Size Pilot Program will be no sooner than 180 calendar days following the publication of the Commission's Approval Order of the Plan in the Federal Register.” (*Pilot Program, Section C, Implementation of the Plan*). Are we to assume that the “Pilot Period” will fall within the “Tick Size Pilot Program?” If so, does this mean the “Tick Size Pilot Program” will begin in 180 calendar days, followed by an additional “six months” of data collection before the “Pilot Period” is implemented? If so, I would argue this is entirely too long. The presence of a Control Group eliminates much of the need for six months advance data collection in addition to the six months to prepare for the program.

Respectfully,

Joseph Galinskie