Dimensional

December 18, 2014

BY ELECTRONIC MAIL ONLY

Ms. Elizabeth M. Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Pilot Plan to Assess Stock Market Tick Size Impact for Smaller Companies

Dear Ms. Murphy:

Dimensional Fund Advisors ("Dimensional") appreciates the opportunity to comment on the Proposed National Market System Plan to Implement a Tick Size Pilot Program. Dimensional is a global asset manager with over $300 billion in equity assets under management. We do not trade on a proprietary basis. Rather, we invest exclusively for our clients.

Dimensional has one of the longest track records of investing in US small capitalization stocks. Our first offering was a US micro-capitalization fund in 1981. For over three decades, we have dedicated significant efforts and resources to improve the execution and implementation of the portfolios we manage for our clients. This has provided Dimensional with a wealth of experience around investing in small cap stocks.

We believe the cost of accessing capital is an important feature of any capital market. Lower costs to access capital help drive innovation, progress, and productivity. For example, the cost of accessing capital is important to entrepreneurs seeking capital and to investors who wish to benefit from capital growth. Most importantly, for the US, lower costs to access capital help promote growth as a whole, aid our country's effort to be more competitive in a global economy, and provide opportunities for our citizens to achieve a better life.

The current proposed Tick Size Pilot Program may increase the cost of accessing capital markets for US companies included in the program and investors in those companies. Because of the potentially negative, unintended consequences of the program, we believe it should be changed to more closely address its original purpose—determining how to encourage more IPO activity in the US. Below, we outline the possible negative, unintended consequences of the program. We also suggest an alternative study that could be conducted without affecting markets and could provide useful information regarding how to encourage more IPO activity in the US. The alternative study may also offer information on how to enhance the currently proposed program by increasing all parties' understanding of the questions it should address.

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Higher Trading Costs for US Investors

Which investors may incur higher costs because of the pilot program? A large fraction of US stocks are held and traded by US investors saving for retirement in 401(k) plans, IRAs, and state, local, and private pension plans along with other institutional investors. For example, the Investment Company Institute estimates defined contribution plan assets in the US are approximately $6 trillion, with approximately 30% invested in US stocks.

Many academic studies have documented that (1) the introduction of decimalization in the US decreased effective bid-ask spreads, and (2) traded volume for both large and small cap stocks has dramatically increased. As a result, trading costs for investors have decreased. Increasing tick size may do the opposite. For example, retail investors often use market orders. For some companies in the pilot program, the minimum spread is five times wider than today. Wider spreads may impose higher costs on such investors.

The average share price for companies with less than $5 Billion in market capitalization is approximately $25. For an investor buying at the offer and selling at the bid, a $0.05 spread implies a 0.4% round-trip cost to buy and sell the stock. Currently, market participants and market makers can post buy or sell orders at spreads higher than $0.01 per share. Anyone willing to post offers at $0.05 spreads can do so, but there are other participants who are willing to trade at narrower spreads in order to achieve their investment goals at lower costs. We do not see the need to prevent those willing participants from executing their trades at prices they find acceptable. We do not think it is prudent to force such market participants to make offers to transact at worse prices.

Finally, the Tick Size Pilot Program contemplates four groups for small caps, each with its own set of rules and exemptions. This approach adds complexity to the structure of US markets, which may increase both risk and the cost of the systems used to trade these stocks. These additional costs will likely be borne by the end investor.

Higher Cost of Capital for US Companies

For US companies, if larger tick sizes increase transaction costs incurred by investors, companies in the pilot program might expect to see their cost of capital increase relative to similar companies not included in the pilot program or similar companies included in the pilot program but in a different group. This consequence may randomly impose unneeded costs on some US companies, making it more difficult for those companies to compete within the US and globally.

The pilot program could have real market effects on the operating companies in each of the test groups. Test group company shares may suffer the risk of lower prices or less liquidity, which may impose competitive disadvantages on these operating companies. It may not be acceptable to the board of directors of listed companies to be randomly subjected to different tick sizes, because the possible real effects on such companies, while unknown, are likely to be negative.

If the SEC proceeds with the current proposed Tick Size Pilot Program, we believe it is important to undertake a communication initiative to the board of directors of listed companies in the US. before the program is implemented to reduce the possibility that this program may subject US operating companies to negative, unintended consequences. As part of that initiative, the SEC should outline the expected benefits of the pilot program for US operating companies, what data will be gathered, and how that data will be analyzed to measure ex-post if the expected benefits were realized. During this initiative, the SEC should also gather feedback from the operating companies that would be part of the program and their respective boards to understand how they believe the program may impact their competitiveness and share prices. We also think it would be beneficial to engage current shareholders of those companies to determine if they support the imposition of higher spreads to trade their holdings. Due to the above mentioned risks we believe that it is very important for the Board of each company, if not its current shareholders, to be able to decide whether to participate in, or at least to be able to opt-out of, the program.

Alternative Study

We share the concerns about the decreased number of IPOs in the US markets over the past decade. We do not believe, however, that mandating higher transaction costs through increasing tick sizes for some small cap companies will provide useful information on how to increase IPO activity. Rather, we encourage the SEC to pursue a study that could provide such information and be conducted without affecting markets.

Over the past decade, many small companies decided to sell themselves to larger, public companies rather than going public, while other small companies chose to go public. A potential study could (1) analyze structural differences between the two groups of companies and (2) study the cost-benefit analyses these companies performed to compare the benefits of going public vs. being acquired. This study could provide useful information on how to better incentivize smaller companies to go public.

For example, if the this study shows that higher costs and lower expected valuations were among the perceived disadvantages of going public vs. selling to a larger company, a future program could be designed to study the causes behind this finding and how they might be ameliorated. If, at that time, the alternative study finds that the proposed Tick Size Pilot Program could present useful information regarding how to encourage more IPO activity, it could be pursued with additional insights on what data to collect and analyze.

In summary, we do not think that forcing investors to trade at wider spreads will increase the number of new listings. Rather, we believe studying the causes behind the decreased number of IPOs among US companies will provide valuable information that could be used to encourage more small companies to go public. Finally, we believe the proposed Tick Size Pilot Program may impose negative, unintended consequences on US investors and US operating companies, and make the US less competitive in the global market.

Please do not hesitate to contact us with comments or questions about Dimensional's perspective.

Sincerely,

Eduardo A. Repetto
Co-Chief Executive Officer and Co-Chief Investment Officer