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Securities and Exchange Commission
100 F St. NW
Washington, DC 20549-9303
Rule-comments@sec.gov

File: SR-NYSE-2011-55m, NYSE Dark Pool Proposal

Dear Securities and Exchange Commission:

Here are my comments on the NYSE's proposal to integrate a dark pool into its exchange. The NYSE is proposing to establish a dark pool in which so called retail liquidity providers ("RLPs"), along with other member organizations, would be permitted to submit non-displayed "Retail Price Improvement Orders" ("RPIOs"). These RPIOs would be allowed to execute only against retail orders, generally orders from natural persons that are not computer generated. This will allow the NYSE to attract more order flow, both from institutional order flow that seeks to interact with presumably "non-toxic" retail orders, as well as retail orders routed by brokers seeking price improvement.

I have no objection to dark pools, nor do I have any objection to an exchange integrating its own dark pool into its exchange mechanism. This part of the proposal should be approved without delay.

I have serious concerns, however, about the change to the operation of SEC Rule 612, Minimum Pricing Increment, which states:

[1] I am also on the boards of directors of the EDGA and EDGX stock exchanges. My comments are strictly my own and don't necessarily represent those of Georgetown University, EDGX, EDGA, or anyone else for that matter.

a. No national securities exchange, national securities association, alternative trading system, vendor, or broker or dealer shall display, rank, or accept from any person a bid or offer, an order, or an indication of interest in any NMS stock priced in an increment smaller than $0.01 if that bid or offer, order, or indication of interest is priced equal to or greater than $1.00 per share.

The NYSE proposes to accept and rank orders with an increment smaller than $.01 per share in its dark pool. Indeed, the NYSE effectively proposes to reduce the minimum price variation, or tick size, from $.01 to $.001 for professional orders in its dark pool while only the $.01 increment is available for orders placed by the rest of the world. Note that $.001 is only ten cents on a 100 share order.

This is a major change in the operation of our markets that will have the impact of creating a dark world where the institutions trade in $.001 increments and the outsiders like me trade in $.01 increments. Instead of certainty about our execution price, we only get a statistical "trust me" message from the exchange – I might have a dime for you.

The Commission adopted Rule 612 for a number of very good reasons. The Commission also explicitly considered trading in subpennies and decided to stick with a tick size of $.01, also for a number of very good reasons. A non-trivial tick size protects limit orders that are displayed in the limit order book. Permitting dark orders to step in front of the orders that are publicly displayed for a mere $.001 per share effectively eliminates the incentive to display public liquidity in a limit order book. Investors will be less likely to show their hand by submitting regular limit orders into the public limit order books, potentially leading to wider bid-ask spreads.

My intuition as a long-time scholar of market structure is that the proposed tick size of $.001 for orders inside the dark pool is too small. But rules should not be based on intuition; they should be based whenever possible on hard facts. Since this proposal is for a pilot, the pilot should be scientifically designed to see the impact of different tick sizes inside and outside the dark pool. Working with RiskFin, the exchanges should set up an industry-wide pilot that assigns different stocks to different tick categories, and rotates the stocks through different categories in order to determine the impact on the trading of the stocks. The data should be made publicly available so that scholars as well as industry participants can observe the impact. In this way, we can generate usable hard data to determine the impact of different tick sizes.

If the Commission is going to change the tick size, it should do so in a deliberate and well thought out manner with careful pilot studies to examine the different alternatives. The Commission should conduct a scientifically designed pilot study with several different tick sizes including $.05, $.01, $.005, and $.001 in order to generate valid data for making rational decisions.

I can't really blame the NYSE for wanting to compete with the dark pools on their terms, but I think that the Commission should think long and hard before it reverses its existing policies and endorses subpennies.

The Commission should take the following steps:

- Promptly approve this proposal, but with the proviso that this pilot be scientifically designed to determine the impact of different tick sizes.
- Conduct a well-designed pilot study that would help to determine the optimal tick size for the US market.
- Permanently approve this proposal only after analyzing the results of a well-designed pilot program.

If you have any questions, feel free to email me at angelj@georgetown.edu or call me at (202) 687-3765.

Respectfully submitted,

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