July 16, 2012

VIA E-Mail to rule-comments@sec.gov
Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Re: Tick size study mandated by the Jumpstart our Business Startups Act of 2012 (the "JOBS Act")

Dear Ms. Murphy:

The Security Traders Association (STA) appreciates the opportunity to comment on the "Tick Study" requirement of the SEC under Title I of the Jumpstart Our Business Startup (JOBS) Act. As we have done for 78 years, the STA has provided unique and focused comment to Congress and regulators on issues related to market structure. This insight comes from our roles as the practitioners in the markets. STA membership does not represent any specific business model, but rather encompasses a broad range of industry participants. It is from this broad based membership that STA seeks to build bottom-up consensus regarding issues that relate directly to the U.S. securities markets.

Much of the JOBS Act modifies certain financial disclosure, corporate governance and research communication requirements to encourage capital formation for "emerging growth companies." STA will limit its comments to the "Tick Size Study Report" required of the Commission which:

> …shall examine the impact that decimalization has had on the number of initial public offerings since it implementation relative to the period before its implementation. The study shall also examine the impact that this change has had on liquidity for small and middle size company securities and whether there is sufficient economic incentive to support trading operations in these securities in penny increments.

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The subject of "Minimum Price Variations" ("MPVs") and its impact on overall liquidity and capital formation is a topic the STA has commented on in the past. We continue to believe that MPVs greater than one penny help the strength of secondary trading in emerging growth companies, which in turn plays a positive contributory role in their ability to raise capital. Since decimals with no MPVs were introduced in 2001 and are now fully engrained in our market structure, STA recommends that the Commission initiate a pilot program to garner data which can be used to determine if emerging growth companies and investors are better served with MPVs greater than one penny.

General Statements and Beliefs:

- Strong secondary trading markets are essential to private capital formation. Financial institutions are less likely to participate in initial public offerings without a reasonable expectation that an active secondary trading market will develop for the securities thereafter. Traditionally, this was accomplished by the sponsorship and support of market making firms and block traders.

- The declining trend in the number of initial public offerings ("IPOs") is not the result of any single regulatory or competitive event, nor is it isolated to one segment of market structure.

- Trading operations play a vital role in the strength of secondary markets for all publicly traded companies regardless of their size. With respect to publicly traded companies that meet the criteria of an "emerging growth company", shareholders benefit from the presence of market makers and block traders who can, among other things, dampen market volatility by providing enhanced liquidity to increase the depth of the market to the benefit of the market place and investor confidence.

- Certain changes to market structure, in particular wider MPVs for emerging growth companies, can improve the secondary trading for emerging growth companies.

- The implementation of decimal pricing transformed the secondary trading markets to the benefit of investors in liquid securities. Experience has shown, however, the capital raising ability of smaller companies in initial public offerings have been negatively impacted by the unwillingness of firms to make markets in their securities in a decimal environment without an MPV. The withdrawal of market maker sponsorship and support is directly related to the increased costs and diminished opportunities for cost recovery of illiquid securities trading without an MPV.

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- The rising trend in explicit and implicit costs to maintain a trading operation in today's market structure jeopardizes the strength of secondary trading and capital formation for small companies dependent upon it.

- MPVs greater than one penny can create benefits to the capital formation process by reducing the costs of maintaining a trading center, improving overall liquidity, both displayed and enhanced, in previously less liquid securities, and improving investor confidence in market structure.

- STA believes investor confidence in the quality of markets, exemplified by increased depth and liquidity leading to executions of trades in size and without increased volatility, will result in investors making use of increased opportunities to invest in small, new companies that have the potential to earn liquidity premiums greater than larger companies.

- STA recommends the Commission initiate a pilot program utilizing a statistically significant number of emerging growth companies and an appropriate period of time to study the impact on the secondary markets of quoting MPVs in increments of greater than one penny. If after a statistically significant period of time data demonstrates that there has been no harm to market quality but the desired goal of improving overall liquidity in emerging growth companies has not been achieved, the Commission should consider whether modification of the pilot to include other variables would be appropriate.

Market makers and block traders

Market makers and block traders perform a sub set of functions that satisfy the definition of "trading operations". Given the evolution of market making, STA believes it is important to highlight the differences in these functions. Market makers publicly display continuous two sided bid and ask prices. Today's market making firms are highly automated and most trading is electronic. Their bids and offers reflect customer and proprietary interests, and statutes and regulations provide market makers with certain benefits and obligations. Block traders, among other roles, facilitate the execution of orders on behalf of their clients acting in an agency, principal or riskless principal capacity.

Enhanced liquidity

At times, market makers and block traders provide enhanced liquidity. Enhanced liquidity is liquidity that exceeds what is publicly displayed and available in the marketplace. Enhanced liquidity could be the result of capital commitment, secondary offerings or institutional block trades.

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Block trades serve an important investment purpose because they clear the marketplace of significant, potentially one-sided volume imbalances in an efficient, low-impact way.

It is important to note when blocks are traded they often represent thousands of retail investors who place their money in the hands of investment professionals serving a fiduciary responsibility.

The commitment of amounts of capital to facilitate trading in illiquid securities that might not be noteworthy for actively traded stocks can have a significant positive impact on the quality of trade executions in illiquid ones. Increased investor confidence in the market may attract additional trading interest, which in turn leads to increased depth and liquidity. Positive reinforcement of investor confidence ultimately leads to self-sustaining, active trading markets in smaller companies facing a future of growth.

We hope our comments provide the Commission with guidance on where this study should focus.

Executive Summary on the State of Market Structure and Capital Formation

The ability of emerging growth companies to raise capital in initial public offerings creates long-term negative effects on our economy. Markets provide capital that enables small companies to grow and create jobs. The current lack of market maker sponsorship and support of trading in the secondary market for emerging growth companies has forced investors in such securities into a volatile marketplace.

In addition to the thin primary market, additional strains have been placed on the secondary market. Technological innovation has made possible a proliferation of market centers. Today, there are 13 primary exchanges, more than 40 Automated Trading Systems (ATSs), Electronic Trading Networks (ECNs) and other dark pools where trading of securities occur. It is within this broad and fiercely competitive execution landscape that more than 3,000 mid-cap, small-cap and micro-cap companies seek capital to grow.

Market Makers and Enhanced Liquidity

STA believes that market makers and block traders play a valuable role in efficient price discovery and the overall liquidity of the markets and this accrues to the benefit of investors in publicly traded companies. As stated in the STA letter to SEC Chairman Donaldson of May 14, 2003:

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> The loss of liquidity providers and its potential impact on investors is of major concern to STA…those less active securities (the overwhelming number of publicly traded securities) and their shareholders do in fact benefit by the presence of market makers and specialists.

Impact of Decimalization on Capital Formation

In recent testimony given by STA President and CEO Jim Toes before the House Financial Services Committee's Capital Markets and Government Sponsored Enterprises Subcommittee, STA stated:

> There is perhaps no single market structure event that has yielded more benefit to retail investors who transact directly with the market to buy or sell securities than the introduction of decimal prices. The benefits for this class of investor are witnessed every day in the narrow bid to ask spreads in the securities in which they trade. This benefit was immediate and long lasting, however, it has come with a cost to the secondary markets ability to perform their capital formation function.

Costs of Trading in Penny Increments

STA believes economic incentives for market making and block trading in emerging growth companies has decreased as the result of higher costs and lower revenue brought about by quoting and trading in one penny, or less, MPVs.

The increased number of price points per dollar increased both explicit and implicit trading costs regulators originally discounted despite industry warnings to the contrary. Explicit costs include clearing higher numbers of executions required to fill even small orders, and the costs of data storage facilities to capture and store the increased amount of quote and trade activity. These types of costs are transactional based, meaning the cost is the same regardless of the size of the transaction which is being cleared or captured for its data. STA believes that the costs of trading the securities of "emerging growth companies" are disproportionately higher as a result of these explicit costs. STA believes widening MPVs will reduce the number of price points and result in less unnecessary transactional activity, and therefore lower costs for clearing and data capture and storage.

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The reduction in costs of trading these securities will have a direct and positive impact on the willingness of broker/dealers to provide enhanced liquidity through their market making and/or block trading business units.

Decimalization without an MPV has seriously damaged the depth of markets for micro-, small- and mid- size companies, where displayed quotes for less than 100 shares at any given price level are common. This has created certain implicit costs, as we believe investor confidence decreases in the absence of meaningful displayed liquidity in emerging growth companies.

Trading in these markets results in odd-lot purchases, and a 10,000 share order will contain multiple, perhaps hundreds, of price reports from multiple, perhaps dozens, of execution venues. The aggregation of volume that would occur at wider MPVs would improve market transparency by showing the real depth of the market at any price and would also lower the cost per share to settle and clear trades.

Again, STA believes that reducing these costs will incentivize the participation of market makers and block traders and that this will add to the strength of secondary trading and capital formation.

Benefits to Displayed Liquidity, Available Liquidity and Investor Confidence

Besides reducing the costs of maintaining trading centers, STA believes increasing the MPV for emerging growth companies will result in greater displayed liquidity, more available liquidity, and improved investor confidence.

A goal of wider MPVs is to increase displayed liquidity in illiquid securities and encourage market makers and block traders to add to the liquidity pool for investors by providing enhanced liquidity. The aggregation of liquidity, in our opinion, would be immediate if MPVs were wider. This could be demonstrated in a pilot program. Market makers and block traders are more likely to enhance liquidity when the aggregation of all trading interest is displayed, which will presumably attract trading in size.

Wider MPVs will improve the capital formation process, and we believe that all investors will benefit as a result of the increased opportunities to invest in small, new companies that often grow at rates greater than larger companies, and this growth is reflected in greater price appreciation for their securities. The MPV will facilitate the raising of capital by small companies, allowing them to create new products, expand their markets and hire employees to carry out their growing operations.

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Recommendation: "Pilot Program"

We urge the Commission to initiate a pilot program to investigate whether widening the MPVs for emerging growth companies will result in benefits to investors. We recommend that, at a minimum, such a program have the following characteristics:

- A defined measure, to determine whether there is a benefit to investors and capital formation for emerging growth companies with reintroducing wider MPVs, will need to be determined. We recommend a measure which could quantify overall liquidity, both displayed and enhanced.
- Utilize a statistically significant number of emerging growth companies to study the impact on the secondary markets of quoting securities in MPVs greater than one penny.
- Establish eligibility criteria for companies to qualify for the pilot program.
- Allow the pilot program to operate for a sufficient period, a minimum of 2 years, so that firms will have an incentive to make the financial commitment necessary to participate on a commercially viable basis.

STA welcomes an opportunity to work with the Commission on this pilot program.

Sincerely,

J. G. Setzenfand

Jennifer Green Setzenfand

Chairman of the Board

James Toes

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President & CEO

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Page 7 of 7