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December 17, 2019

Via Electronic Mail (rule-comments@sec.gov)

Ms. Vanessa Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street NE., Washington, DC 20549

Re: **Commission Statement on Market Structure for Thinly Traded Securities**[1] **(File No. S7-18-19)**

Dear Ms. Countryman:

On behalf of Data Boiler Technologies, I am pleased to provide the U.S. Securities and Exchange Commission (SEC) with our comments regarding the above-referenced statement. First of all, I applaud the SEC for including the **thinly-traded securities** topic (related trading make up less than two percent of all daily share volume) as one of the three matters in the 2019 Equity Market Structure Agenda[2]. To make it easier for buyers and sellers to find each other and consummate trades in this segment of the market is the right thing to do, but the question is how. Some suggest modifying Unlisted Trading Privileges (UTP), others advocate for periodic auctions. I think these are all direct interference that pushes policy makers to pick winners. Instead, I am advocating for **helping the sustainable development of thinly-traded securities segment indirectly**.

Let's take a step back and see what is broken. According to data summary by the SEC[3], "half of all NMS stocks have an average daily volume of less than 100,000 shares; fewer exchanges are quoting at the inside, and there are longer duration when a single exchange is alone at either or both the national best bid and national best offer for less-liquid symbols." Commenters at the SEC's 2018 Roundtable on Market Structure for Thinly-Traded Securities[4] also highlighted that:

- Illiquidity harms the companies' ability to hire/ retain employees, negotiate with vendors, and access capital;
- these thinly-traded companies lack research coverage and are not viewed as potential acquisition targets;
- days to liquidate a position is a priority concern over the company's fundamental for hedge fund managers;
- by consolidating liquidity for thinly traded securities on a few venues may reduce the risk of information leakage;
- allow dark pools to continue to trade with no UTP for exchanges, will still result in fragmentation and price leakage;
- market structure changes won't alter a security fundamentals, it float, or cause it to be included in an index;
- SEC should not create rules that result in a false sense of liquidity.

The incumbents' suggestions: NASDAQ prescribes the concentration of limited liquidity on the home exchange of these thinly-traded securities issuers by allowing them to revoke UTP[5], while CBOE may favor their specialty periodic auctions. The NYSE Group commented that "increasing market-making activities will not magically improve natural liquidity." Anyway, some interesting insights can be found in Section VI, Subpart B and C, of Prof. Allen Ferrell's paper about intermarket fragmentation and price isn't everything.[6]

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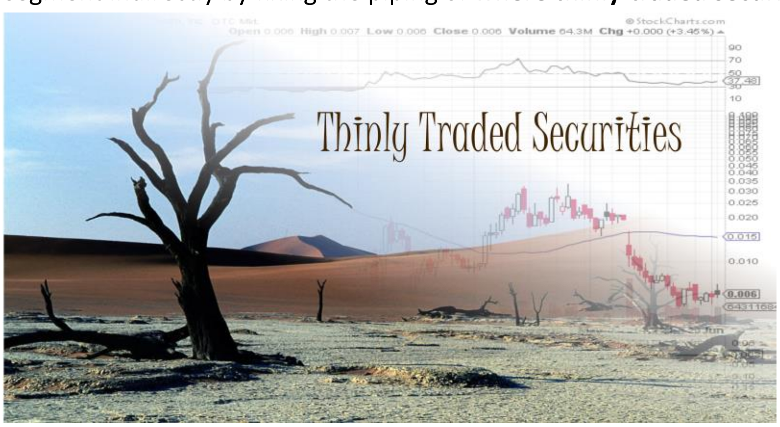
[1] https://www.federalregister.gov/documents/2019/10/24/2019-22994/commission-statement-on-market-structure-innovation-for-thinly-traded-securities
[2] https://www.sec.gov/news/speech/clayton-redfearn-equity-market-structure-2019
[3] https://www.sec.gov/files/thinly_traded_eqs_data_summary.pdf
[4] https://www.sec.gov/spotlight/equity-market-structure-roundtables/thinly-traded-securities-rountable-042318-transcript.txt
[5] https://business.nasdaq.com/media/Nasdaq_TotalMarkets_2019_tcm5044-69828.pdf
[6] https://www.researchgate.net/publication/267224202_A_proposal_for_solving_the_payment_for_order_flow_problem

Per research[7] by Alex Frino, Dionigi Gerace and Andrew Lepone, "stocks that traded in an auction market switched to a specialist market, where the specialist controls the order book, showed tightening of spreads … the specialists' ability to offer price improvement further lowers the cost of executing trades, hence **specialist market structure are more advantageous** to market participants." In research by M. Nimalendran and Giovanni Petrella – Do thinly-traded stocks benefit from specialist intervention,[8] they pointed out that **hybrid order driven system** (with specialist and limit order book) **offer superior performance** over the pure order driven market with limit order book. They identify benefits such as lower execution costs, greater depth, significant increase in the depth-to-spread ratio, and a decrease in adverse selection cost in particular **for very illiquid stocks** than moderately illiquid ones. Their findings are consistent with Grossman and Miller's 1988 study[9] that a specialist can enhance liquidity of "thinly-traded" stocks.

I have no disagreement with these various researchers that suggest the benefits of using "specialist" approach. However, I think there are bigger issues at play[10] amid other market observations (e.g. thinly-traded Chinese stock listed in the U.S. enormously soared[11]; minority investors got squeezed out[12]; risk of an unfair take-private[13]; etc.). A couple points to highlight: (1) money flowing in-and-out of thinly-traded segment is unstable; and (2) too many poor quality thinly-traded securities in the pool. So, let's see how we can help this segment indirectly by fixing the piping of **where thinly-traded securities get their money**.



First up – thinly-traded companies get their money from **larger public companies** through vertical and horizontal integration. They have the domain expertise to properly evaluate these thinly-traded companies and enhance their credit worthiness. Reducing frictions in M&A[14] helps capital formation. Active acquisition of thinly-traded securities into large companies' portfolio can yield meaningful productivity gains benefiting the economy (as long as antitrust[15] rules remain effective), and it is better than having excessive shareholder payouts.[16] One should closely observe the dynamics between large and small public companies (i.e. chances that runner ups or emerging companies can challenge the prominent position of large public companies) as well as fraud monitoring of M&A activities[17] as it can affect the overall health of the economic environment.

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[7] https://efmaefm.org/0EFMAMEETINGS/EFMA ANNUAL MEETINGS/2006-Madrid/papers/776012_full.pdf
[8] https://www.sciencedirect.com/science/article/pii/S0378426603001031
[9] https://onlinelibrary.wiley.com/doi/abs/10.1111/j.1540-6261.1988.tb04594.x
[10] https://faculty.chicagobooth.edu/eric.budish/research/Stock-Exchange-Competition.pdf
[11] https://economictimes.indiatimes.com/markets/stocks/news/this-chinese-stock-soared-4500-on-nasdaq-and-no-one-knows-why/articleshow/57912231.cms
[12] https://finance.yahoo.com/news/how-u-slisted-chinese-companies-are-squeezing-out-minority-investors-172606715.html
[13] https://corpgov.law.harvard.edu/2019/02/04/the-risky-business-of-investing-in-chinese-tech-firms/
[14] https://www.sec.gov/news/press-release/2019-65
[15] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2954382
[16] https://hbr.org/2018/03/are-buybacks-really-shortchanging-investment
[17] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3070375

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Second – **angel funding, private equities and venture capitals**, they have the advantages of being an informed group and often with board connectivity to exert influence on management. So, they provide both money and skills to effectively unleash values in small companies. However, they have higher funding cost and Main Street American investors could possibly miss out on stock appreciation opportunities when private equity and venture capital are overly competitive with the public market.[18] Therefore, appropriate balancing between the public market and private market is needed (e.g. availability of research[19] and learn from MiFID II's unintended consequences[20]) to support the sustainable development of a thinly-traded securities market.

Third – **active managers**, they are an uninformed group and are opportunistic. Their money will go anywhere quickly if there is profit, or leave when there is no money to be made. Do not expect their money as a stable source. Attract them to the market by having a bigger and higher quality pool of small listed companies. That being said, a lot needs to be done by policy makers and stock exchanges to discover new breeds or unicorns at early stage before they become the Pinterest/ Airbnb/ Uber/ Lyft for IPOs.[21] There are plenty of U.S. domestic small businesses that have the world's most ingenuous ideas worthy of investors' support. So, why compete fiercely with foreign exchanges to bring foreign companies with questionable quality list here?!

Forth – **passive investment funds**, they are the followers. If the above three sources are enjoying the fruits of a thinly-traded securities market, they would jump right-in and provide stable source of liquidity accordingly. I envisage American and Global investors would increase their appetite and be willing to consummate trades in thinly-traded securities when these small companies can become more investible. After all, **buyers and sellers are eager to find each other when there are chances to make money**.

I hope our comments will be helpful to the SEC and benefiting the broader industry. Feel free to contact us with any questions. Thank you and we look forward to engage in any opportunities where our expertise might be required.

Sincerely,

Kelvin To

MSc Banking, MMGT, BSc

Founder and President

Data Boiler Technologies, LLC

CC: The Honorable Jay Clayton, Chairman
The Honorable Robert J. Jackson Jr., Commissioner
The Honorable Hester M. Peirce, Commissioner
The Honorable Elad L. Roisman, Commissioner
The Honorable Allison Herren Lee, Commissioner
Mr. Brett Redfearn, Director, Division of Trading and Markets

This letter is also available at: www.DataBoiler.com/index_htm_files/DataBoiler%20SEC%20ThinlyTraded%20Comments.pdf

[18] https://www.linkedin.com/pulse/missed-opportunities-average-investors-kelvin-to/
[19] http://www.integrity-research.com/sec-confirms-actively-seeking-mifid-ii-solutions/
[20] http://www.integrity-research.com/mifid-ii-isnt-working-intended-investors-losing-result/
[21] https://investorplace.com/2019/02/pinterest-ipo-airbnb-ipo-uber-ipo-lyft-ipo/