

Chairman of the Board

JOHN DALEY

Stifel Nicolaus
Dallas, TX

President & CEO

JAMES TOES

Security Traders Association
New York, NY

Vice Chairman

RORY O'KANE

KCG
Chicago, IL

Treasurer

JOHN RUSSELL

Franklin Templeton Investments
San Mateo, CA

Secretary

JON SCHNEIDER

Lenexa, KS

Past Chairman

TOM CARTER

JonesTrading
Westlake Village, CA

GOVERNORS

PAT ARMSTRONG

Prime Executions, Inc.
New York, NY

TIM CASEY

Cabrera Capital
Boston, MA

DOUG CLARK

ITG Canada Corp.,
Toronto, Canada

GEFFREY GIOIA

Northcoast Research
Cleveland, OH

FREDERIC E. MASON

JP Morgan Asset Management
New York, NY

CHARLES M. PADALA

Brean Capital, LLC
New York, NY

MIKE RASK

Hodges Capital
Dallas, TX

PATTY SCHULER

BOX Options Exchange
Chicago, IL

CHRISTOPHER WILSON

Capital International Investors
Los Angeles, CA

January 30, 2014

Elizabeth M. Murphy

Secretary

Securities and Exchange Commission

100 F Street, NE, Washington, DC 20549-1090

Re: Securities and Exchange Commission Investor Advisory Committee;
File Number 265-28

Dear Ms. Murphy,

The Security Traders Association (“STA”)¹ wishes to offer comment on the three (3) recommendations made by the Securities and Exchange Commission’s (“Commission”) Investor Advisory Committee (“IAC”) Subcommittee on Market Structure (“Subcommittee”) under file number 265-28. These recommendations pertain to the impact decimalization with no minimum price variations (“MPVs”) may have on the ability of the U.S. equity markets to perform the capital raising function for new companies.

As we have done for 80 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.

Executive Summary

The subject of MPVs and its impact on overall liquidity and capital formation is a topic on which the STA has commented on in the past². We believe that strong secondary trading markets are essential to private capital formation because investors 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. In addition we believe that MPVs greater than one penny could help the strength of secondary trading in smaller companies, like those defined as emerging growth companies, and contribute positively to their ability to raise capital. We continue to recommend that the Commission initiate a pilot program to collect data to determine if emerging growth companies and investors are better served with MPVs greater than one penny.

¹ STA is a trade organization founded in 1934 for individual professionals in the securities industry. STA is comprised of 26 Affiliate organizations with 4,200 individual professionals- most of whom are engaged in the buying, selling and trading of securities. The STA is committed to promoting goodwill and fostering high standards of integrity in accord with the Association’s founding principle, **Dictum Meum Pactum** – “My Word is My Bond”.

² [STA Comment Letter: “Tick size study mandated by the Jumpstart our Business Startup Act of 2012”](#)
[STA Comment Letter to SEC Small Business Advisory Committee, April 30, 2013](#)
[STA Letter to Chairman Schapiro; November 20, 2012](#)
[Testimony before Capital Markets & Government Sponsored Enterprise Subcommittee, Committee on Financial Services U.S. House of Representatives; June 20, 2012](#)



STA Views

STA agrees with the Subcommittee that a number of factors have contributed to the decline in small company IPOs over the past couple of decades. However, STA does not believe that is a reason for not moving forward with a pilot program to allow MPVs greater than one penny for smaller company stocks. In a March 20, 2012 letter¹ to Senate Banking, Housing and Urban Affairs Committee Chairman Tim Johnson and Senator Richard Shelby, regarding the “Jumpstart Our Business Startups Act” (H.R. 3606), STA offered statements on the current market structure and whether it assists or detracts from the process of capital formation, and the impact on shareholders and investors of newly listed and less actively traded securities as the result of reducing access to liquidity providers. We wrote:

- *STA does not dispute the data which shows a declining trend in the number of U.S. companies going public.*
- *We do not think the declining number of initial public offerings is attributed to any single regulatory or competitive event, nor is it isolated to one segment of our market structure.*
- *For our financial markets to perform their role in capital formation, efficiencies in regulation and competition need to exist among and within all the participants involved in the capital formation process: **issuers, broker dealers, investment banks, exchanges and investors.***
- *Any attempt to reform this process should cover the entire spectrum of participants.*

STA’s support for the JOBS Act was, and continues to be, rooted in its broadness in addressing the numerous variables required for successful capital formation. These variables each play separate but deciding roles in capital formation. One such variable is the strength and liquidity in the secondary markets for emerging growth companies. Strong, liquid markets serve investors and companies well and will determine the success or failure in achieving the goals of the JOBS Act. It is our belief that increasing tick sizes for emerging growth companies could increase available liquidity in emerging growth companies to the benefit of investors.

STA has also considered costs and benefits to investors that may arise in a pilot study. We have done so because it is the investor who ultimately decides if attempts to improve the market structure for emerging growth companies are successful. STA recognizes that investors are not forced into investing in emerging growth companies and only do so if the benefits are greater than the costs to do so. It is incumbent upon the industry to design a pilot program which has the best chance of providing a benefit not available today.

³ [Letter to The Honorable Tim Johnson, Chairman Committee on Banking, Housing, and Urban Affairs, U.S. Senate](#)



In June 20, 2012 testimony before the Committee on Financial Services' Subcommittee on Capital Markets and Government Sponsored Enterprises² STA recommended the Commission conduct a pilot study to study the impact of decimalization with no MPVs on capital formation. Our testimony stated:

Should the Commission move ahead with such a pilot program, a key data point that should be measured is whether private investors recognize and are willing to accept additional incremental costs in return for the opportunity to obtain the potential for greater growth characteristic of successful small- and mid-size companies.

The primary reason STA recommends a pilot program is to obtain empirical data, which the Commission can then use to inform its decisions on the issue of increasing MPVs for smaller publicly traded company stock. In our letter to then SEC Chairman Mary Schapiro, dated November 20, 2012³, we wrote:

The most effective way to determine the impact of the current market structure on capital formation is to compare the current market structure without MPVs with the information gained through a pilot program making use of them. The results of this comparative analysis should demonstrate the degree to which regulatory initiative is necessary and desirable.

Conclusion

STA believes that the only way to determine if decimal pricing policy for emerging growth company stocks should change is if a pilot program is established. A pilot program allowing MPVs of greater than one penny will provide data necessary for the Commission to examine the benefits and costs of such a change to emerging growth companies and to investors.

Sincerely,

A handwritten signature in blue ink that reads 'John Daley'.

John Daley, Chairman of the Board

A handwritten signature in blue ink that reads 'James Toes'.

James Toes, President & CEO

⁴ Ibid., footnote², pp1.

⁵ Ibid.