KOR TRADING LLC

February 4, 2013

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

RE: File No. 4-657 Decimalization Rountable

Dear Ms. Murphy,

KOR Trading LLC ("KOR")[1] appreciates the opportunity to comment on the Securities and Exchange Commission "Commission" Decimalization Roundtable regarding the impact of tick sizes on small and mid-sized companies, market professionals, investors, and the U.S. securities Markets.

KOR previously submitted comments to the SEC regarding regulatory initiatives required under the JOBS Act: Title 1 "Tick Size Study"[2]. Generally KOR believes that the market and investors would be best served by a program that has the following general characteristics:

- The Commission should consider mandating stock trading prices between $20 and $60 dollars.
- If the commission does not mandate stock trading prices then:
  - Less liquid securities should carry fewer price points.
  - Highly liquid securities should carry more price points.
  - Lower priced stocks should carry more price points.
  - Higher priced stocks should carry fewer price points.
- Trading and printing should be mandated to identical increments.
- A pre-determined length of time pilot of a select group of securities should be established.
- Broader market incentives should be enacted.
- Any adopted plan must be straight forward and simple for investors to understand.
- Section 31 fees should be abolished.

With respect to the specific questions offered by the Commission pertaining to the Roundtable, KOR submits the following comments:

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[1] KOR Trading LLC brings over 26 years of experience at helping investors and serves to consult exchanges, brokers and advisors on structural, regulatory and political issues. KOR's President and Founder was the former head of Order Routing Sales and Strategy at TD Ameritrade and has extensive experience with the handling of retail orders. Information about KOR Trading and its affiliate KOR Advisors can be found at www.kortrading.com

[2] See KOR Comments at: http://www.sec.gov/comments/jobs-title-i/tick-size-study/ticksizestudy-3.pdf

Panel 1 — Evaluating Concerns Relating to Tick Size for Small and Middle Capitalization Companies

- **Given the current market structure, does a one-cent minimum tick size inhibit IPOs or otherwise have any negative effects on small and middle capitalization companies?**
    - KOR believes that small companies and IPO's not incentivized to bring their companies public primarily due to the lack of liquidity incentives offered in the market coupled with a disjointed two tiered market-structure evident in our markets today. ***Specifically, KOR's president advocated to the Commission following the May 5th, 2010 event that liquidity incentives promote greater size in the markets and should be encouraged[3].***

- **What are possible regulatory initiatives that might encourage small and middle capitalization companies to conduct IPOs?**
    - KOR Believes that the existence of two tiered markets discourage liquidity formation in small and mid-cap securities. Retail based marketable order-flow is primarily distributed to internalizes[4] who pay retail providers for the opportunity to trade on the order-flow. The practice of payment is known in the markets as kickbacks, rebates and "payment for order-flow". These order-flow payments subsequently do not flow back to the consumer rather are kept by the brokerage firms which can generate substantial profits in the hundreds of millions of dollars. These practices disintermediate the transparent markets from subsequently participating in the retail liquidity. The transparent markets however serve the vital function of price discovery and are where quote discovery and pricing for those internalized retail orders occur. The transparent markets are also where liquidity providers and retail non-marketable orders generally post their indications to trade, and thus are also deprived from the liquidity provided by internalized orders. ***As part of the Commissions review of Decimalization, KOR believes the Commission should examine the appropriateness of kickback and payment for order-flow programs conducted off exchange and seek to mitigate the amount of internalization conducted by retail brokers.***

- **Would increasing minimum tick sizes for trading the securities of small and middle capitalization companies materially impact the incentives for IPOs? If so, what should the minimum tick size be?**
    - Not Necessarily. Incentives and two tiered markets are really at the center of the debate when it comes to liquidity provisions in small and middle capitalized stocks. Today many small and middle cap stocks trade with spreads much wider than one cent between the National Best Bid and Offer "NBBO". This is primarily due to the incentives offered are not sufficient enough to attract liquidity providers. ***KOR believes that small and middle capitalized stocks should contain greater liquidity incentives. KOR also believes that Section 31 fees also serve to discourage liquidity in these stocks and***

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[3] See testimony from KOR's President at the Joint SEC/CFTC hearing from the events of May 5th 2010. http://capitolconnection.net/capcon/cftc/webcastarchive.htm#

[4] See Q4 2012 Rule 606 Reports from TD Ameritrade: http://t.co/CNA1V9E6 Etrade: http://t.co/yIgi8n3K Fidelity http://t.co/4IJVPqtn Schwab http://t.co/2IGiD1n5 and Scottrade http://t.co/hOS58nTK

should be abolished. KOR believes the Commissions should examine these practices and propose eliminating Rule 610 from Regulation NMS.

- **Can issuers effectively address the tick size issue through reverse stock splits or stock price range selection at the time of the IPO?**
    - Our market-structure today is ideally designed for stocks that are generally priced between $20 and $60 dollars[5]. This is due to the market-structure of pricing and rebates in the associated market place when the Commission instituted Regulation NMS[6], and more specifically 610 of the Rule which places caps on pricing of no more than $0.003 to remove liquidity. As stock prices increase the transaction tax becomes lower and conversely as the stock price decreases the overall transaction tax becomes a higher portion of the notional value of the traded security. Moreover, there is no disincentive in our markets to force a publicly traded company to split shares which, in turn the effects how the market-structure of those securities operate[7]. Research also shows that post-split stocks generally enjoy increased liquidity following a split[8]. ***KOR therefore recommends that the Commission should seek to re-evaluate Rule 610 of Regulation NMS for further refinement or abolishment. Additionally, KOR believes the Commission should seek to implement rules to confine security trading prices at optimal levels and mandate splits to confine security prices thus ameliorating concerns of refining trading increments based on stock price.***

- **What particular problems do small and middle capitalization companies face in the current market structure?**
    - One of the issues in our current structure is the high cost associated with the registration through SEC charges. ***KOR believes that the Commission should remove registration costs for small companies that seek to go public for a period of time.***

- **Are there other factors that significantly impact the liquidity and trading of small and middle capitalization companies? If so, what are possible regulatory solutions to improve the market structure for them?**
    - The single greatest impact market-structure changes could do to encourage liquidity is through the utilization of incentives in markets and the reduction of trading costs for small to middle capitalized companies. KOR also believes that Section 31 fees contribute to reduced liquidity in the markets. Since 2009, Section 31 fees have increased by 348% which resulted in a drop in equity volume by 43.7%[9]. ***KOR believes that rulemaking in this regard must be initiated from the Commission rather than the Self -Regulatory Organizations. KOR also believes that high Section 31 fees discourage liquidity from the markets and should be abolished.***

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[5] See http://bit.ly/WMiOi2

[6] See adopting release of Regulation NMS Release No. 34-51808; File No. S7-10-04 http://www.sec.gov/rules/final/34-51808.pdf

[7] For example, Due to high security prices, the options exchanges introduced "Mini Options" to help retail investors effectively hedge their positions. See: http://www.sec.gov/rules/sro/occ/2012/34-68368.pdf

[8] See http://bit.ly/12nwKWw

[9] See www.healthymarketsinitiative.org

Panel 2 — Evaluating Concerns Relating to Tick Size for the Securities Market Generally

- **What impact has decimalization had on the securities market in general?**
  - The move from fractions to decimals on April 9th, 2001 served as a boon for investors and immediately reduced traded spreads from the then .0625 cent spread to spreads of .01 penny. Reduced spreads also reduced the amount of Broker Payment for Order flow and put the spread differential directly into the hands of the investor. In fact, decimal trading was so successful in Equities, that the SEC adopted the practice in the Options markets in January of 2007[10]. KOR recently commented on the benefits brought from the Options Penny Pilot Program from the significant amount of data available from the exchanges as part of their required reporting obligation.[11] ***Overall, the benefits of decimalization for the markets have been extremely positive.***

- **Is it advisable to broadly re-evaluate minimum tick sizes in the U.S. securities market?**
  - Yes. It is also advisable to examine fees, rebates and other associated mechanisms which contribute to liquidity.

- **Should consideration be given to reducing minimum tick sizes for other types of securities such as those of very liquid large capitalization companies?**
  - The most important aspect is that tick sizes should be commensurate with printing sizes. KOR also suggests that if security prices were contained within optimal pricing levels the need to reduce tick sizes would be irrelevant. KOR therefore recommends that the Commission should first examine the feasibility of securities that are generally priced between $20 and $60 dollars and the associated split, reverse-split mechanisms.

Panel 3 — Studying the Effects of Alternative Tick Sizes

- **Should the Commission assess the impact of minimum tick sizes on the full range of equity securities, including those of large capitalization companies?**

  - Yes. KOR believes the SEC should conduct a pilot program of companies with various trading prices and market capitalization levels as stated above, however any program must ensure that investors do not suffer increased overall costs as a result.

- **Should OTC executions in increments less than the minimum tick size (i.e., subpenny price improvement) be prohibited during a pilot period?**
  - Yes. KOR witnessed first-hand that sub-penny price improvement erodes investor confidence and should be abolished. Price improvement today has been squandered

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[10] See http://1.usa.gov/VzEX2X

[11] See: http://www.sec.gov/comments/sr-cboe-2012-059/cboe2012059-1.pdf

to levels never intended or imagined through the enactment of Regulation NMS. Coupled with severely outdated Rule 605 analysis, today's retail investors frequently are afforded amounts of .0001 or less on their shares. To put this into perspective, a retail order of 200 shares with improvements of .0001 generates $0.02 cents of price improvement to the client, however deprives the liquidity provider who was posting shares at the NBBO from trading on those shares. ***KOR strongly recommends that as the Commission examines decimal structure, it seek to abolish sub-penny price improvements from the market and seek to establish a paradigm of meaningful price improvement. KOR believes that trading and printing should be at identical increments.***

- **Are there particular risks associated with conducting a pilot program? If so, what is the best way to mitigate these risks?**
    - Yes. One of the inherent risks is that a pilot does not transition from a pilot to a permanent program or remains a pilot for an extended period of time. The Options Penny Pilot is an excellent example of a pilot which has been wildly successful yet remains in a Pilot program five years later. ***KOR strongly recommends that the implementation of a pilot contain provisions to revert or make permanent after a specified period of time.***

- **Are there better ways to gather reliable data on the impact of minimum tick sizes on the securities of small and middle capitalization issuers?**
    - ***KOR Recommends that the SEC complete the Consolidated Audit Trail prior to implementing a Pilot program.***

KOR appreciates the opportunity to put forth specific recommendations the Commission could undertake as it seeks to examine the effect of Decimal pricing on U.S. market-structure. Should you have any further questions please do not hesitate to contact me at 402-312-7918 or Christopher.nagy@kortrading.com .

Sincerely,

Christopher Nagy
President
KOR Trading LLC