



November 20, 2018

Mr. Brett Redfearn  
Director, Division of Trading and Markets  
Securities and Exchange Commission  
100 F Street, NE  
Washington, D.C. 20549-1090

Dear Mr. Redfearn,

On behalf of Greenwich Associates, the leading global provider of information products and advisory services to the financial services industry, I am submitting comments on the recently ended Tick Size Pilot Program.

On September 10, 2018, the SEC stated that the Tick Size Pilot program would be allowed to expire on September 28, 2018. This was the correct decision. Over the course of its two-year run, various studies have estimated that the cost to investors of this experiment range from \$350mm<sup>1</sup> to \$900mm<sup>2</sup>. These estimates do not include the implementation costs to the industry in terms of rewriting the computer code at exchanges, brokers, technology vendors, market data providers, and other market participants. These costs also likely ran into the hundreds of millions of dollars.

Nevertheless, it is important that the time, money and effort spent on this endeavor are not completely wasted. Let us regard this as a case study, examining what went wrong at each stage of the program, to avoid making similar mistakes in the future.

As an industry, we must learn from the following:

### **1. The project was flawed from the start**

One of the main problems with the pilot is that the rule was conceived in Congress, not the SEC. Originally inserted into the JOBS Act as a theory to test, the SEC initially rejected it as a bad idea in a thoughtful 27-page analysis<sup>3</sup> of the academic literature on decimalization. Unsatisfied with this expert opinion, the House of Representatives passed the Duffy-Carney Bill in 2014, advancing the Tick Size Pilot forward from a proposal to a near decree.

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<sup>1</sup> <https://www.pragmatrading.com/resource/tick-size-pilot/>

<sup>2</sup> <https://www.barrons.com/articles/sec-tick-size-pilot-program-1536961160>

<sup>3</sup> <https://www.sec.gov/news/studies/2012/decimalization-072012.pdf>

In addition, the premise underlying the Tick Size Pilot was convoluted and illogical. The rationale was that wider tick sizes would increase the profit of market makers, which would, in turn, spur brokerage houses to produce more research on these companies, thereby attracting more investor interest, which would lead to increased capital formation, which would create jobs. Few in the industry actually thought this chain-reaction would come to pass.

***Recommendation for future decision-making:*** Congress should set policy, and the SEC should make the rules. Although this is how things are supposed to work, the SEC's hands were tied by the actions of Congress. Nevertheless, it is important to identify this as the fundamental flaw in the project.

## 2. The pilot had no clear objective

While the original premise of the Tick Size Pilot was grounded in job creation, the final structure of the program was centered around improving liquidity in small and mid-cap stocks.

***Recommendation for future decision-making:*** Objectives for future pilot initiatives should be clearly defined in advance, including key performance indicators and success/failure criteria.

## 3. No cost-benefit analysis was performed

No cost-benefit analysis of any kind was performed. Although the regulation was supposed to be business-friendly, basic business management techniques were not applied as part of the planning process. And while congressional action effectively made the pilot program a mandate, a thorough analysis of the expected costs and benefits may have been enough to change the minds of our elected representatives.

***Recommendation for future decision-making:*** Regulators would do well to consider business management practices for future initiatives, including cost-benefit analyses and stage gates<sup>4</sup>.

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<sup>4</sup> In many ways, a pilot program can be thought of as a new product initiative. Product management practitioners often use a stage gate process to divide the project into different stages, with continuation to the next stage decided by a steering committee or governance board.  
[https://en.wikipedia.org/wiki/Phase-gate\\_process](https://en.wikipedia.org/wiki/Phase-gate_process)

#### 4. Soliciting broader industry feedback should be the goal

As with many SEC initiatives, the agency sought public comment. I analyzed the 63 comment letters submitted to the SEC prior to the launch of the pilot and noted that only 11 opposed the program. Most were either in favor or supportive with some specific modification. We don't know if this level of support was genuine or simply the safe thing to do. Whatever the reason, we can surely agree that 63 comments represent only a tiny sliver of opinion from the market participants who would ultimately be impacted by the pilot.

***Recommendation for future decision-making:*** *In addition to the comment letter process, regulators should consider other methods of soliciting industry feedback, such as directly canvassing members of FINRA or other industry bodies.*

Greenwich Associates greatly appreciates the Commission's consideration of these comments in connection with the Tick Size Pilot Program. If you have any questions or require further information please contact me at [REDACTED] or [REDACTED].

Sincerely,



Richard Johnson  
Vice President, Market Structure and Technology  
Greenwich Associates