



American
Business
Conference

A Coalition of Growth Companies

John Endean
President

VIA EMAIL

December 12, 2014

Brent J. Fields

Secretary, U. S. Securities and Exchange Commission

100 F Street, NE

Washington, DC 20549

Re: Release No. 73511; File No. 4-657: Proposed National Market System Plan to Implement a Tick Size Pilot Program On a One-Year Pilot Basis Plan to Implement a Tick Size Pilot Program

Dear Mr. Fields:

The American Business Conference (ABC) is a Washington-based coalition of CEOs of mid-sized growth companies founded in 1981 by Arthur Levitt, Jr. and chaired by Alfred West, Chairman and CEO of SEI Investments, Oaks, Pennsylvania. ABC is submitting this comment letter to express qualified support for the Commission's proposed plan to implement a tick size pilot program ("the Pilot").

ABC has a long history of advocating for small cap, publicly traded companies. In particular, we have encouraged the Commission to acknowledge that regulatory changes driven by large companies and large investors should be examined closely before they are applied to the vast majority of publicly traded companies.

Market structure and trading practices have changed in dramatic ways over the past ten to fifteen years. While many of these changes may be appropriate market responses to technological advances and competition in the markets, they have not

necessarily improved the environment in which smaller companies seek to raise capital. Nor have they necessarily benefitted individual investors seeking to deploy their capital in the public equity markets.

ABC supports the Pilot but believes that it should be of longer duration than one year. As you know, the SEC Investor Advisory Committee (IAC) debated at some length whether it should encourage the SEC to test whether wider tick sizes would benefit investors by improving market liquidity for small and mid-cap companies.¹ Part of that discussion, found in the important dissenting opinion of IAC member Stephen Holmes, highlighted a little understood facet of the public market for small cap stocks.² As Mr. Holmes' noted, while there are many hundreds of companies with market capitalization of less than \$750 million, these companies represent only 2% percent of the total US exchange market capitalization.³ While these smaller companies are important for economic growth, they are essentially minnows swimming with whales in the exchange markets. Unsurprisingly, large market participants, like institutional investors, as well as the exchanges themselves, fail to focus on providing liquidity for these companies.

Ultimately, the IAC majority voted to oppose a tick test pilot program and, in the alternative urged the SEC to limit the duration of any such pilot. However, the SEC Advisory Committee on Small and Emerging Companies voted unanimously to recommend a change in the tick-size rules on a *permanent* basis.⁴ For its part, the 2014 SEC Small Business Capital Formation Forum voted to recommend that the Pilot be extended to as much as *five years*.

¹ See U.S. Securities and Exchange Commission, Advisory Committee on Small and Emerging Companies, Recommendations Regarding Trading Spreads for Smaller Exchange-Listed Companies. (February 1, 2013). [Oppose to a Pilot]. Available at <http://www.sec.gov/info/smallbus/acsec/acsec-recommendation-032113-spread-tick-size.pdf>.

² A Dissenting Opinion and Alternative Recommendation #1 regarding the Market Structure Subcommittee's Recommendation #1 Decimalization and Tick Size. Available at <http://www.sec.gov/spotlight/investor-advisory-committee-2012/dissenting-opinion-decimalization-iac.pdf>.

³ We recognize that the Proposed Pilot includes a larger cohort of companies; however, it still represents a small percentage of the overall trading market. Furthermore, we would support a Pilot that applied to only these smaller companies should that be a necessary trade-off for a Pilot of longer duration.

⁴ See U.S. Securities and Exchange Commission, Advisory Committee on Small and Emerging Companies, Recommendations Regarding Trading Spreads for Smaller Exchange-Listed Companies. (February 1, 2013). Available at <http://www.sec.gov/info/smallbus/acsec/acsec-recommendation-032113-spread-tick-size.pdf>.

There are many causes of diminished liquidity in the small cap market and, accordingly, many solutions to the problem have appeared. We applaud the Commission's decision to explore the "tick-size" aspect of market structure and to test the hypothesis that wider tick sizes will increase liquidity for small-cap companies. We hope that some of the concepts that the Pilot will test will result in greater liquidity in the small-cap market and will also benefit investors, particularly individual investors. Just as important, a more robust secondary trading market will enhance the entrepreneurial environment upon which much of the country's future growth and new job creation depends.

The initiation of this test is also a welcome sign that the Commission has embraced a data-driven approach to regulation.⁵ ABC has long advocated for serious quantitative cost-benefit analysis of regulatory changes. We applaud the Commission for taking this approach to changing this regulation and encourage it to take a similarly experimental approach to *new* regulations.

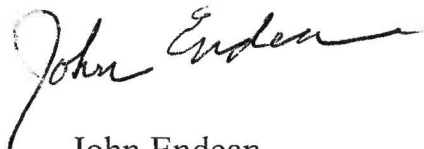
Of course, a data-driven approach to regulation is only as valuable as the data it produces. We think that a one-year limit on the Pilot – apparently the Commission's preference – will not produce the data necessary to evaluate the value of wider tick sizes. We would prefer a longer pilot period as a means of generating better information. We believe the benefits of better data would exceed the overall cost of a longer Pilot period.

Recognizing that the Commission can always extend the Pilot, we nonetheless believe that a longer period established at the beginning of the Pilot will provide a better incentive for the investments that market participants will need to make in order to increase their exposure to the small cap market. We believe there is a substantial risk that market makers and institutional investors may well conclude that a one-year pilot does not offer sufficient time to justify the cost of system changes and the opportunity costs involved in a commitment to this small segment of the market.

⁵ This embrace of data-driven analysis contrasts favorably to the Commission's 2009 amendments to Regulation SHO. See, e.g., letter of John Endean, President, American Business Conference to Elizabeth M. Murphy, Secretary, U.S. Securities and Exchange Commission, Re: Amendments to Regulation SHO (Release No. 34-59748; File No. S7-08-09), June 19, 2009.

If the Pilot is worth doing – and ABC believes it is – it is worth doing well. We respectfully urge that the Commission embrace a longer Pilot period.

Sincerely,

A handwritten signature in black ink, reading "John Endean". The signature is fluid and cursive, with a long horizontal stroke at the end.

John Endean
President