imc
financial markets

December 30, 2014

Mr. Brent Fields
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-0609

Re: Joint Industry Plan to Implement a Tick Size Pilot Program, File No. 4-657

Dear Mr. Fields,

IMC Chicago, LLC d/b/a IMC Financial Markets ("IMC")[1] appreciates the opportunity to submit this comment letter to express our support for the joint industry plan to implement a tick size pilot program ("Tick Size Pilot" or "Proposal"). Although IMC has reservations as to the effect that wider tick sizes will have on the IPO market and any subsequent jobs growth, we support the Commission's commitment to data driven reviews and reforms based on empirical evidence; the proposed pilot approach is consistent with this commitment. We also support proposals which foster or reinforce the benefits of exchange trading, namely transparency, price discovery and the potential for price improvement. As such, we strongly support the inclusion of a trade-at provision as a critical component of the Proposal, designed to protect and reward displayed liquidity.

Background

According to the Proposal, the pilot program would last one year and would, among other things, widen the quoting and trading increments for certain small capitalization stocks. The general purpose of the Tick Size Pilot is to assist the Commission in assessing the impact of increment conventions on the liquidity and trading of stocks of small capitalization companies. Targeting NMS stocks with a market capitalization of $5 billion or less ("Pilot Securities"), the

[1] IMC is a proprietary trading firm and registered broker-dealer, engaged in providing liquidity in nearly every listed equities and derivatives market in the U.S. IMC is a registered market maker in U.S. exchange listed products and is a Designated Market Maker on the NYSE. As a market maker, IMC establishes two-sided markets which serve to aid investors in their effort to mitigate or transfer risk.

Proposal will randomly select three test groups with the remainder of Pilot Securities constituting a control group. Pilot Securities in Test Group 1 will be quoted in $.05 minimum increments but may continue to trade in any price increments currently permitted. Pilot Securities in Test Group 2, with certain exceptions, may only be traded in $.05 increments. Similarly, Pilot Securities in Test Group 3 will only be permitted to quote and trade in $.05 increments, but they will also be subject to a trade-at prohibition. According to the Proposal, in order to protect displayed liquidity and prevent off-exchange passive-price matching, Test Group 3 includes a restriction on passive price-matching based on a "protected quotation" standard, subject to certain exceptions.

Discussion

IMC is a registered market-making firm; together with our global affiliates, IMC provides liquidity in over 200,000 securities worldwide on over 100 exchanges, platforms and pools of liquidity. As a market maker, we have become increasingly concerned by the rising share of off-exchange trading in the US equity markets and we generally support efforts to facilitate and reward displayed and accessible liquidity. With the rise of off-exchange trading, for example, the publicly displayed quotes that we and other market makers generate are too often used by internalizers and alternative trading systems (ATSs) to price and facilitate off-exchange business. Rather than facilitating interaction amongst all market participants, off-exchange trading limits such opportunities to a select and privileged group.

Unfortunately, despite the goals of the Tick Size Pilot, it is generally understood that wider tick sizes typically result in a higher share of off-exchange trading. It is our strong view, therefore, that any proposal fostering wider tick sizes should be coupled with ways, namely a trade-at provision, to stop volumes seeping away from exchanges and further denigrating their critical price discovery function. As a result, we strongly support the inclusion of a trade-at provision as a critical component of the Proposal. Furthermore, we caution the Commission against adopting variations or exceptions that cause such a provision to be weakened or rendered wholly ineffective. Namely, we urge the Commission to reconsider, remove or revise the proposed "price improvement" exception. As currently designed, this exception effectively fosters passive price matching since Retail Investor Orders may be executed off-exchange as long as such orders receive $.005 price improvement. In five-cent wide markets, $.005 hardly seems to qualify as meaningful price improvement. We fear that such an exception risks undermining the benefits of the proposed trade-at provision. In other words, absent a requirement of *meaningful* price improvement, which we suggest should be at least half of the applicable tick size quoting increment, displayed liquidity should be protected and rewarded.

Conclusion

Despite reservations regarding the impact of wider tick sizes on the IPO market, IMC supports the Commission's commitment to data driven reforms, which this Proposal reasonably facilitates. Furthermore, IMC strongly concurs with the Proposal's inclusion of a meaningful trade-at provision, as a critical means to protect displayed liquidity and limit off-exchange passive price matching.

Sincerely,

Andrew Stevens
General Counsel

cc:

Ms. Mary Jo White, Chair

Mr. Luis A. Aguilar, Commissioner

Mr. Daniel M. Gallagher, Commissioner

Ms. Kara M. Stein, Commissioner

Mr. Michael S. Piwowar, Commissioner

Mr. Stephen Luparello, Director, Division of Trading & Markets

Mr. Gregg E. Berman, Associate Director, Division of Trading & Markets