January 20, 2015

VIA EMAIL

Mr. Brent Fields, Secretary
U.S. Securities and Exchange Commission
100 F. Street, NE
Washington, DC 20549

Re: Tick Size Pilot; File No. 4-657

Dear Mr. Fields:

The New York Stock Exchange Group, Inc. ("NYSE") appreciates the opportunity to comment on the proposed Tick Size Pilot ("Pilot"). The U.S. equity market is the most efficient and liquid market in the world. However, trading volume is highly concentrated in a few hundred securities while many small and mid-sized companies, which represent the vast majority of the stocks listed on the public market, suffer from a lack of liquidity.[1] Our public capital markets can and should do a better job supporting smaller companies by creating a more liquid, transparent and efficient market for their securities. NYSE believes positive changes in some of our regulations could help to improve secondary trading and capital formation for small companies.

NYSE fundamentally believes the key to improving liquidity for smaller public companies resides in increasing the incentives to publicly quote in these stocks. For this reason, NYSE supports the goal of the Pilot to enhance publicly-displayed liquidity in the secondary market by encouraging greater market maker participation in smaller public companies where market makers are needed most to provide liquidity. Market makers with quoting obligations, such as those on NYSE, fulfill this need by providing continuous liquidity and efficient, publicly-available pricing which assists investors in transferring shares at fair prices. The role of the market maker also assists institutions acting on behalf of retail investors through mutual funds and pension funds to buy meaningful quantities of a stock. Lastly, market makers who post quotes on lit markets provide value to all market participants through reduced price volatility and enhanced execution certainty.

There are diverse views on how to address the challenges of trading shares of smaller public companies and the Pilot will produce valuable data to study the effects of an increased tick size on market quality. It is difficult to forecast the impact of market structure changes on our complex market and the Pilot will provide the Securities and Exchange Commission ("SEC") with data to inform its efforts to enhance equity market structure, including whether to make any of the Pilot Test Groups permanent. It is critical that the Pilot be appropriately designed to draw reliable conclusions, which not only requires a sufficient number of securities and pilot duration, but also broad industry participation and limited exceptions.

Current Challenges For Smaller Public Companies

As the operator of two of the three U.S. exchanges that list operating companies, we spend a great deal of time with entrepreneurs who are considering taking their companies public. These

[1] In 2014, the smallest 3,534 securities accounted for just 2% of all trading volume, while the largest 500 securities represent 62.8%. Source: Consolidated Tape Association, NYSE

entrepreneurs consistently raise two concerns about going public as it relates to market structure: will there be sufficient interest and liquidity in the company's stock on a continuous basis and will there be sufficient stock research coverage to attract long-term investors. These concerns highlight why both short-term liquidity providers and long-term investors are necessary to provide smaller companies with the capital they need to grow, while maintaining investors' confidence that they will have the ability to modify their ownership of a security with ease. Finding a way to bring these two pieces together is what has driven much discussion over the past several years about helping smaller companies go public so they can access cheaper capital to use in growing their business and, in turn, hiring more people.

Several developments in recent years have made the environment more challenging for investors to trade and find research in a smaller public company. *First*, decimalization of the markets in 2001 had the effect of reducing quoted spreads and quoted depth of lit order books. Average spreads fell by roughly 38% in NYSE and NASDAQ listed securities, shifting some economic benefits from market makers to investors. [2] *Second*, the Sarbanes-Oxley Act of 2002 introduced major changes to the regulation of financial practice and corporate governance, which made it more costly and challenging for smaller companies to go public. *Third*, the Global Research Settlement in 2003, in combination with the low commission, low spread marketplace, resulted in brokerage firms cutting their research departments, particularly in less liquid and small cap securities. *Fourth*, institutional commissions decreased 33% in the years leading up to Regulation NMS implementation in 2007.[3] *Fifth*, today's U.S. market structure has resulted in excessive fragmentation and contributed to a decline in liquidity and price discovery in listed securities beyond the top few hundred securities. Under current trading rules, market makers do not have the incentive to quote aggressively with regard to both price and size due to the increase in off-exchange trading that occurs at the quoted price. In fact, an estimated 68% of all off-exchange volume is traded at or near the exchange quote with no meaningful price improvement and in NYSE MKT listed securities, which are largely smaller, emerging growth companies, off-exchange trading was 44.2% in November 2014. [4]

NYSE believes the combination of these developments has had the unintended effect of reducing market making and liquidity for smaller public companies, as well as impeding research coverage and capital raising. We believe a well-designed Pilot could have an immediate impact on liquidity, although it is less clear if increased market maker profitability from wider tick sizes will support more sell-side equity research over time.

Pilot Design and Implementation

Data Collection and Analysis:
NYSE believes modifications could be made to make implementation of the Pilot less costly, including reducing the data collection and analysis requirements by eliminating certain data elements that are not necessary to analyze the goals of the Pilot. In particular, NYSE supports eliminating the market maker profitability and participation data requirements and simplifying

[2] Data is calculated based on decrease in dollar value of spreads between 2001 and 2007, when the next major market structure changes were implemented through Regulation NMS. Source: Consolidated Tape Association, NYSE.
[3] Tabb Group
[4] Consolidated Tape Association, NYSE.

the Rule 605-based data collection, consistent with the recommendations of other commenters, like the Financial Information Forum ("FIF").

Advisory Committee:

NYSE recommends that a Tick Pilot Advisory Committee be established to ensure that the valuable input received from market experts is not limited to the comment period and can assist in providing technical advice as the pilot is implemented.

Three Test Groups:

The Pilot Test Groups have been designed to test three versions of wider tick increments. Group 1 and Group 2 will test if wider tick sizes improve liquidity by increasing the economic incentives for market participants to trade. Group 3 will test if a protected quote requirement, in addition to a wider tick size, further enhances liquidity by increasing the incentives to publicly quote and display trading interest. By requiring market participants to interact with the National Best Bid and Offer (NBBO) on lit venues before executing non-displayed liquidity at the same price, market makers and investors will have an incentive to advertise their trading interest by entering displayed orders.

It is difficult to forecast the impact of these changes and NYSE supports all three Pilot Groups to deepen our understanding of the various factors impacting liquidity in our fragmented market. Some commenters have speculated that widening the tick size without protecting displayed liquidity could lead to more internalization and harm liquidity. Because Groups 1 and 2 do not reward liquidity providers at the NBBO, Group 3 could be the only group to show increased liquidity by facilitating and rewarding displayed and accessible liquidity. That said, this outcome is uncertain and it is important to test all groups and let the data decide.

Several commenters have suggested modifying Group 3 to allow broker-dealers to internalize order flow at the NBBO if they are displaying a quote at the NBBO. We do not support this modification as such a change would eliminate the protection of displayed quotes, weaken the incentive for market makers to quote aggressively and impair the ability to analyze the impact of a protected quote requirement on a wider tick size. NYSE does, however, support certain limited exceptions to the currently proposed trade-at provision in circumstances where the end customer is benefited by the exception.

Additional Considerations:

While NYSE supports the Pilot and believes that a pilot will provide the SEC will meaningful data, we also believe a pilot should be implemented across several segments of the market that will impact liquidity provision and have the added benefit of reducing complexity. Today, the shares of many companies trade with wide quoted spreads, but still lack liquidity and market maker participation, which indicates that other factors are contributing to the problem. We believe a better way to increase liquidity in all companies would be to promote a transparent market that rewards displayed liquidity. Tick size, access fees, rebates and displayed liquidity protection rules are interdependent structural variables that should be studied.

A broader pilot that combines a quote protection rule, similar to that defined in Group 3, with a reduced access fee cap and the elimination of maker-taker pricing could help all securities. Implementation of these three components would have the effect of decreasing the trading costs for liquidity takers by lowering quote access fees, increasing incentives to liquidity providers in all securities by rewarding price setters with an execution, and decreasing systems complexity and the perception of order routing conflicts by eliminating the existing maker-taker pricing model. We acknowledge that a displayed liquidity protection rule could increase exchange market share and this is why we recommend a simultaneous reduction in access fees in the test group. This proposal is something that NYSE has been discussing with other market participants in response to feedback we have received about market structure concerns and have found support for.

Conclusion

NYSE supports market structure proposals that reinforce the benefits of price discovery, deep and accessible liquidity, and transparency. Additionally, it is important that changes promote a fair and simple market to build investor confidence and reduce industry costs and risks. NYSE believes positive changes can be made to reduce market complexity and improve trading for smaller companies.

We support the Tick Size Pilot as currently designed, but recognize it is an incremental approach focused solely on wider tick sizes in a narrow universe of stocks. Trading in smaller public companies can and should be improved. If designed appropriately, we believe the Pilot could induce market participants to post added liquidity, resulting in greater depth and liquidity, which benefits investors and issuers. A broader approach would deepen our understanding of various interdependent factors that impact our markets and could benefit more securities and investors. Regardless of the approach, NYSE believes that improving the experience for smaller public companies is an important focus of the markets and we will continue to push for reforms that help them.

Sincerely,

B J Weiss

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Co-Head, Government Affairs

Cc: Mary Jo White, Chairman
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