

September 3, 2008

Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Subject: File Number SR-NASD-2007-041

Ladies and Gentlemen,

Pink OTC Markets Inc. (formerly, Pink Sheets LLC) ("Pink OTC"), respectfully submits the following comments on the proposal by the Financial Industry Regulatory Authority, Inc. ("FINRA"), formerly known as the National Association of Securities Dealers, Inc. ("NASD"), to amend the minimum price-improvement standards set forth in NASD Interpretative Material (IM) 2110-2, which proposed rule changes were submitted by FINRA to the Commission in File No. SR-NASD-2007-041, as amended.

Pink OTC is the leading provider of pricing and financial information for the over-the-counter (OTC) securities markets and, among other things, operates Pink Quote, an Internet-based, real-time quotation service for OTC equities for market makers and other broker-dealers registered under the Exchange Act.

On February 26, 2007, the Commission approved SR-NASD-2005-146, which, among other things, expanded the scope of IM-2110-2 (the "Manning Interpretation") to apply to OTC Equity Securities¹ and amended the minimum level of price-improvement that a member must provide to trade ahead of an unexecuted customer limit order. Prior to such amendments becoming effective, FINRA filed SR-NASD-2007-041 with the Commission to further amend the price-improvement standards in IM-2110-2 based on tiered standards that varied according to the price of the limit order. Amendment No. 2 to SR-NASD-2007-041 further amends the proposed rule change to address an inconsistency in the application of the proposed minimum price-improvement standards.

Pink OTC strongly supports SR-NASD-2007-041 and the proposed expansion of the Manning Interpretation to all OTC Equity Securities because we believe that

¹ The term "OTC Equity Securities" is defined in FINRA Rule 6610(d) to mean all non-exchanged listed securities and certain exchange listed securities that do not otherwise qualify for real-time trade reporting.

investors should receive equal protection regardless of the venue where the security is listed or traded. We also support the amendments made in this Amendment No. 2 to SR-NASD-2007-041 to correct the anomalous situation where inferior priced customer limit orders are protected over superior priced limit orders. We believe that the adoption of SR-NASD-2007-041 without correction of this anomalous situation would disrupt the orderly functioning of the market for OTC Equity Securities.

However, we also strongly believe that the minimum increments of IM-2110-2 should be considered as part of a larger amendment that would mandate minimum quote increment tier sizes for OTC Equity Securities. We believe that the minimum increments for price improvement should mirror minimum quote increment tier sizes that have been established on our Pink Quote interdealer quotation system, the largest OTC quotation venue by both number and dollar volume of securities quoted. This uniformity would create a level playing field for all market participants and improve investor confidence in the market.

In February 2006, Pink OTC implemented a Minimum Quote Increment Tier Pilot Program for securities with trading symbols beginning with the letters A – D. Our objective was to determine whether tier sizes could be identified that would balance the competing goals of increasing displayed size, and therefore increasing liquidity for larger orders, while not artificially widening spreads. During the term of the pilot program, the Pink OTC system would not accept quotes that did not conform to certain stated tier sizes. On June 16, 2006, the Pink OTC tier sizes were modified to reflect comments received from market participants.

Pink OTC determined, as a result of a study of trading activity during the pilot period with the assistance of Professors William G. Christie and Nicolas P.B. Bollen of the Vanderbilt University's Owen Graduate School of Management, that the minimum tier sizes implemented during the pilot program did not result in any artificial widening of spreads or degradation in market quality.² On July 11, 2006, we applied the following minimum quote increment tier sizes uniformly to all Pink OTC quoted securities:

- For quote prices above \$1, a quote tick size of 0.01
- For quote prices at or below \$1 but above \$.10, a quote tick size of 0.005
- For quote prices at or below \$0.10 but above \$0.005 a quote tick size of 0.0005
- For quote prices at or below \$0.005 a quote tick size of 0.0001 (the original tick size)

We now have a two-year operating history with these quote increment tier sizes. We have received no complaints from our broker-dealer customers or the investing

² See Bollen, N., and W. Christie "Market Microstructure of the Pink Sheets" (July 17, 2007 Version). A copy of the study has been included in our electronic submission with these comments. Subsequent to publication of the study, Professors Bollen and Christie monitored the market to evaluate the effect of the minimum tier sizes on market quality during the pilot program.

public. However, in Pink Quote as well as FINRA's OTC Bulletin Board, market participants rarely publish quotations for amounts greater than FINRA's minimum quotation sizes.³ This fact indicates that larger quote publication increments would increase display size and thereby improve the liquidity of the OTC market. On the basis of this experience, we believe that adoption of the quote increment tier sizes implemented by Pink OTC throughout the market for OTC Equity Securities would result in a more efficient and liquid market.

We propose that the Manning price improvement should reflect the Pink Quote increment tier sizes.⁴ Moreover, we propose that the FINRA Rules should be amended to mandate minimum quote increment sizes for OTC Equity Securities and that those sizes should conform to the increment sizes on Pink Quote. Our quote increments are market tested and reviewed by leading academics; FINRA's proposed minimum quote increment tier sizes are not based on any academic studies or economic analysis. While we support the proposed amendments in SR-NASD-2007-041, we believe that adoption of the proposal in SR-NASD-2007-041 without a corresponding adoption of minimum quote increment tier sizes will result in needless confusion in the market because the proposal mandates minimum price improvement standards, but there are no corresponding mandated increments for quotation tier sizes.

The Commission's mandated quote tier sizes for NMS securities has, by all accounts, been highly successful in balancing the market's needs for liquidity without artificial widening of spreads. In the past, the Commission has considered mandating quote tier sizes in the market for OTC Equity Securities,⁵ and this proposal was generally well-received by market participants. We respectfully suggest that this would be an appropriate time to consider the market-tested quote increment tier sizes proposed by Pink OTC in conjunction with its consideration of minimum price improvement standards in this market.

Please call if you have any questions or require any additional information.

Very truly yours,

R. Cromwell Coulson
Chief Executive Officer

³ See generally, FINRA Rule 6650, *Minimum Quotation Size Requirements for OTC Equity Securities*.

⁴ The correct price improvement measure would be half of the relevant quote tier increment as that is half the narrowest possible spread. Since there are no minimum order increments, orders that are in between quote price increments would be improved to the next quote increment.

⁵ See SR-NASD-2005-095, later withdrawn by FINRA.