

SECURITIES AND EXCHANGE COMMISSION  
ADVISORY COMMITTEE ON  
SMALL AND EMERGING COMPANIES

Washington, DC 20549-3628

March 21, 2013

The Honorable Elisse B. Walter  
Chairman  
U. S. Securities and Exchange Commission  
100 F Street, N.E.  
Washington, DC 20549-1070

Dear Chairman Walter:

As you know, the Securities and Exchange Commission organized the Advisory Committee on Small and Emerging Companies to provide the Commission with advice on the Commission's rules, regulations, and policies with regard to its mission of protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation, as they relate to the following:

- (1) capital raising by emerging privately held small businesses and publicly traded companies with less than \$250 million in public market capitalization;
- (2) trading in the securities of such businesses and companies; and
- (3) public reporting and corporate governance requirements to which such businesses and companies are subject.

On behalf of the Advisory Committee, we are pleased to submit the enclosed recommendations to the Commission regarding trading spreads for smaller exchange-listed companies. The recommendations were unanimously approved by the members of the Advisory Committee present and voting at a meeting held on February 1, 2013.

We and the other members of the Advisory Committee are prepared to provide any additional assistance that the Commission or its staff may request with respect to these recommendations.

Respectfully submitted on behalf of the Committee,



Stephen M. Graham  
Committee Co-Chair



M. Christine Jacobs  
Committee Co-Chair

Members of the Committee

David A. Bochnowski  
John J. Borer, III  
Dan Chace  
Milton Chang  
Joseph "Leroy" Dennis \*  
Stephen M. Graham  
Shannon L. Greene  
M. Christine Jacobs  
Kara B. Jenny  
Steven R. LeBlanc \*

Richard L. Leza \*  
Paul Maeder \*  
Kathleen A. McGowan  
Catherine V. Mott \*  
Karyn Smith  
Charlie Sundling \*  
Timothy Walsh  
Gregory C. Yadley

\* Not present at the meeting held on February 1, 2013.

Official Observers

A. Heath Abshure  
Sean Greene

Enclosure

cc: Commissioner Luis Aguilar  
Commissioner Troy A. Paredes  
Commissioner Daniel M. Gallagher  
Lona Nallengara  
Elizabeth Murphy  
Gerald J. Laporte

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

AFTER CONSIDERING THAT:

1. Section 106(b) of the Jumpstart Our Business Startups Act (JOBS Act), enacted on April 5, 2012, directed the U.S. Securities and Exchange Commission (Commission) to conduct a study examining the impact of the transition to trading and quoting securities on U.S. securities exchanges in one penny increments, called “decimalization,” on the number of initial public offerings (IPOs), the impact of decimalization on liquidity for securities of small and middle capitalization companies, and whether there is sufficient economic incentive to support trading operations in these securities in one penny increments.
2. In July 2012, the Commission delivered to Congress the report of the staff of the Commission required by Section 106(b), entitled “Report to Congress on Decimalization,” which the Committee has reviewed and considered. Based on the review conducted in connection with the preparation of the report, the staff recommended that the Commission not proceed with a specific rulemaking to increase tick sizes at this time, as provided for in Section 106(b) of the JOBS Act, but recommended that the Commission should consider the additional steps that may be needed to determine whether such rulemaking should be undertaken in the future.
3. This Committee considered the issue of tick sizes for equity securities of smaller exchange-listed companies at public meetings on June 8, 2012, September 7, 2012 and February 1, 2013.
4. The Committee believes that providing economic incentives to market participants that would encourage the provision of trading support to the equity securities of small and middle capitalization companies, which includes market making and providing research analyst support, could serve to increase the liquidity for the equity securities of small and middle capitalization companies, which would enhance the attractiveness of the IPO market for small companies and the ability of small and middle-capitalization companies to raise capital.
5. This Committee has concluded that a change in the method for determining tick sizes for equity securities of smaller exchange-listed companies is the type of economic incentive market participants may require to provide the trading support for the equity securities of small and middle capitalization companies that is necessary to increase their liquidity and facilitate IPOs and capital formation.

6. The Committee is of the view that a permanent change to the method for determining tick sizes, not a temporary or pilot program, would be the most effective way to encourage market participants to make the required commitments and to invest in the necessary infrastructure.

THE COMMITTEE RECOMMENDS THAT:

1. The Commission adopt rules to increase tick size for smaller exchange-listed companies in the United States that will allow such companies, on a voluntary basis, to choose their own tick size within a limited range designated by the Commission.
2. In order to allow sufficient time for the effects of such rule changes to be evaluated, they should not be adopted on a temporary or pilot basis, although the Commission should commit to reviewing the effects of the changes in the future and making such adjustments as needed.