Security Traders Association
1115 Broadway, Suite 1110
New York, NY 10010
646.699.5996
sta@securitytraders.org
www.securitytraders.org

June 17, 2022

The Honorable Pat Toomey
Ranking Member
Committee on Banking, Housing, and Urban Affairs
U.S. Senate
534 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Ranking Member Toomey,

The Security Traders Association (STA)[1] appreciates the opportunity to provide comments on the JOBS 4.0 discussion draft. STA is an organization comprised of individuals who are involved in the trading of financial securities in the U.S and Canada. Our members are employed at retail brokerage firms, agency only broker-dealers, asset owners and managers, market makers, liquidity providers and exchanges.

The STA applauds the aims of the JOBS 4.0 discussion draft to promote economic growth, spur new business formation, and increase opportunities for retail investors. STA members recognize the importance of robust public and private capital markets, which drive the nation's economy and provide opportunities for investors to save for retirement, their children's education, and other life goals.

The STA's comments are focused on the Main Street Growth Act (Sec. 107) and the Intelligent Tick Study Act (Sec. 108).

***Main Street Growth Act (Section 107)***

STA supports a goal of the Main Street Growth Act – to encourage more trading in smaller company securities – but remains concerned with some provisions in the bill, namely the elimination of Unlisted Trading Privileges (UTP) as part of its construct, and the size of the companies that would be eligible under the legislation.[2]

---

[1] STA is a trade organization founded in 1934 for individual professionals in the securities industry. STA is comprised of 24 affiliate organizations in North America with individual members who are engaged in the buying, selling and trading of securities. STA is committed to promoting goodwill and fostering high standards of integrity in accord with the Association's founding principle, Dictum Meum Pactum – "My Word is My Bond." For more information, visit https://securitytraders.org/.

[2] *See* STA letter to Senate Banking, Housing and Urban Development Committee in advance of hearing on "Legislative Proposals on Capital Formation and Corporate Governance," February 26, 2018, https://securitytraders.org/wp-content/uploads/SenateBankingLetteronCapitalFormation.pdf.

Security Traders Association
1115 Broadway, Suite 1110
New York, NY 10010
646.699.5996
sta@securitytraders.org
www.securitytraders.org

STA is unaware of any empirical data that concludes aggregating liquidity in these securities to one venue, as the legislation would do by eliminating UTP for these securities, results in greater amounts of total liquidity available. Advances in technology have created greater efficiencies in order routing, searching for liquidity, and trading of all securities, rendering the "concentration of liquidity" concept irrelevant because of the ease of accessing actual liquidity available in these securities. The elimination of UTP for certain securities also raises concerns about creating a monopoly in trading these securities. Competition in the markets has helped make the U.S. securities market the most liquid and fair markets in the world, resulting in the market being accessible and inexpensive for all retail investors.

In addition, since the bill would include as venture securities those with less than $700 million in public float (allowing them to remain on the venture exchange when up to $2 billion in public float, indexed to inflation every five years), the legislation would capture a meaningful percentage of all listed securities. If only one exchange is permitted to trade these securities, the competitive issues become more pronounced when the bill would allow a significant number of companies to trade under this UTP elimination construct.

The U.S. has a vibrant over-the-counter (OTC) market for trading securities, including OTC Markets, that includes securities of venture companies. The OTC markets serve as one possible pathway for companies to access liquidity for their securities, and as these companies grow, they can decide whether to list on an exchange or remain traded over-the-counter on an Alternative Trading System (ATS).

Due to our concerns about competition, the scope of companies included in the bill, and the fact that there is currently a healthy OTC market for venture securities, STA suggests the Securities and Exchange Commission (SEC or Commission) should first undertake comprehensive quantitative analyses of the costs and benefits of the Main Street Growth Act. Such as study should include examining the impacts of the bill would have on competition in the market, operational capability, and the conditions that encourage enhanced liquidity provision. Fostering operational capability should be the foremost consideration to ensure that there is not a single point of failure, including in the trading of securities. It is STA's view that investors of small to mid-size securities benefit from the presence of market makers and block traders who can, among other things, provide enhanced liquidity to increase the depth of the market. There are multiple factors in enhanced liquidity provision, and the Commission should consider the effects suspending UTP would have on certain core factors such as quote quality, bid-ask spreads, volatility, and cost.

***Intelligent Tick Study Act (Section 108)***

The SEC conducted a National Market System (NMS) plan that created a temporary pilot program (Tick Size Pilot) to assess the impact of wider minimum quoting and trading increments (tick sizes) on the liquidity and trading of certain small-capitalization companies. The Tick Size Pilot began in

Security Traders Association
1115 Broadway, Suite 1110
New York, NY 10010
646.699.5996
sta@securitytraders.org
www.securitytraders.org

October 2016 and was allowed to expire on October 2, 2018,[3] after mixed results. Prior to expiration of the Tick Size Pilot, STA observed that adequate data was collected in order for the Commission to make an informed decision on whether it should be made permanent or terminated. STA wrote, “Based on the empirical data captured in the assessment and our members’ experiences as practitioners, STA recommends that the Commission terminate the Pilot in its entirety and return all securities to their pre-Pilot trading regime.”[4]

The Intelligent Tick Study Act would allow the Commission to designate the minimum trading and quoting increment for securities of emerging growth companies to be greater than one penny. It would also require the Commission to conduct a study and send to Congress a report that examines: (1) “the transition to trading and quoting securities in increments other than $0.01, which includes increments higher and lower than $0.01”; (2) the impact that change has had on liquidity and market quality for small, middle, and large capitalization company securities; and (3) whether there is sufficient economic incentive to support trading operations in such securities.

STA believes that the legislation could be clarified to better align the SEC study to the authority given to the Commission on tick size changes. Specifically, the study requires the SEC to examine trading and quoting in increments greater and less than one penny, but it does not give specific authority to the Commission to change the trading and quoting increments to be less than one penny. STA believes that securities of different sized companies or higher/lower priced securities will often trade differently, so it is appropriate for the Commission to examine whether changing the trading and quoting increments higher or lower might be advisable for different size or priced securities. Therefore, we recommend that the bill give the Commission such authority.

The STA looks forward to working with the Committee on these and other trading and capital formation issues. Thank you for your leadership on these important matters relating to the U.S. capital markets and for considering our views.

Sincerely,

James Toes

Kate McAllister

James Toes
President & CEO
STA

Kate McAllister
Chair of the Board
STA

---

[3] Data collection for the Tick Size Pilot began on April 4, 2016 and ended on April 1, 2019.
[4] *See* STA letter to Securities and Exchange Commission, September 4, 2018, https://securitytraders.org/wp-content/uploads/TickPilotSizeFINAL.pdf