Tick size pilot could have effect on cost for investors

By Eric Garcia
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U.S. Securities and Exchange Commission announced a pilot program earlier this year that would widen minimum quoting and trading increments for stocks with smaller capitalization.

WASHINGTON (MarketWatch) — As the deadline for comment approaches for a program designed to improve market quality for stocks, many industry leaders are discussing the impact on the cost to investors.

Earlier this year, the Securities and Exchange Commission announced a pilot program that would widen minimum quoting and trading increments for stocks with market capitalization of $5 billion or less, have an average trading volume of one million or less and have a closing share price of at least $2 a share.

The goal stated by the SEC and the Financial Industry Regulatory Authority is to determine if the changes would improve market quality for smaller capitalization stocks. The deadline for comment is December 22nd.

Security Traders Association CEO and President Jim Toes said the association is currently writing its comment letter, which it hopes to have ready by a conference call Wednesday. Toes said it is possible to expect an increase in cost for some investors.
“From very early on we recognized that pilot programs would bring additional costs to private investors,” he said. “The question is will investors be willing to accept these additional costs in exchange for opportunity to buy more companies that historically offer greater growth opportunity than larger-share companies.”

Toes said the goal of the pilot program is to reduce the risk to investors while also offering them a benefit not previously available.

Joe Saluzzi, cofounder of Themis Trading, said contrary to some concern, the pilot program might make trading less expensive.

“If I can increase liquidity and have more stock available, it can decrease my transaction cost,” he said. Saluzzi said this might drive liquidity makers back into the market.

Kevin McPartland, head of market structure and technology at Greenwich Associates, said in theory the pilot should improve liquidity.

“If the spreads are wider, there’s more opportunity to make a profit,” he said.

The pilot program has been criticized in the past. Robert Greifeld, CEO of the Nasdaq NDAQ, +1.96%, has said the pilot is not reflective of modern technology.