

SEC Tick-Size Pilot cost investors over US\$300 million

Analysis of more than four million orders identified significant degradation in execution quality, for stocks priced under \$40 per share

6 September 2018 – New York: Pragma Securities (Pragma), a multi-asset quantitative trading technology provider, has published new research showing that the Securities and Exchange Commission's (SEC) Tick Size Pilot Program has had a negative impact on market quality and execution – costing investors more than \$300 million since it was implemented.

The research paper, entitled *'Tick Size Pilot – Evaluating the Effect of the Pilot Program on Execution Quality'*, estimates that investors trading stocks priced under \$40 incurred significant costs. The total additional cost for all Test Group stocks could exceed \$350 million by October 2018, when the pilot is expected to conclude.

Born out of the Jumpstart Our Business Startups Act ("JOBS Act"), the SEC's two-year Tick Size Pilot Program commenced in October 2016. It was intended to evaluate whether widening the minimum quoting and trading increments – or tick sizes – for stocks of smaller capitalization companies (under US\$3 billion) would improve the market quality to the benefit of U.S. investors, issuers and other market participants.

David Mechner, CEO of Pragma Securities, comments: "While the SEC's Tick-Size Pilot was launched with the intent of helping investors and issuers, the outcome has been very different. Concerns around execution quality and costs for investors were raised early on, and proved to be well-founded. Given our findings, we strongly recommend that the Tick Size Pilot be unwound at the end of the Pilot period."

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Notes to editors

- Test Group One (G1) securities are quoting in \$0.05 per share increments but continue to trade at the current price increments, subject to limited exceptions.
- Test Group 2 (G2) securities are quoting in \$0.05 per share increments like those in G1, but are trading in \$0.05 per share increments, subject to certain exceptions, including exceptions that permit executions that are the (1) mid-point between the national or protected best bid and the national or best protected offer, (2) retail investor orders with price improvement of at least \$0.005 per share, and (3) negotiated trades.
- Test Group 3 (G3) securities are quoting in \$0.05 per share increments and trading in \$0.05 per share increments consistent with G2. G3 Pilot Securities are also subject to a Trade-at prohibition, which generally prevents price matching by a trading center that is not displaying the best price unless an exception applies. The Trade-at prohibition has exceptions that are similar to those provided in Rule 611 of Regulation NMS.
- Control Group securities continue to quote and trade at the current tick size increment of \$0.01 per share.

Source: <https://www.sec.gov/ticksizepilot>

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About Pragma

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