To amend the Securities Exchange Act of 1934 to enable national securities exchanges to provide financial incentives to market-makers that adhere to objective standards that increase the liquidity and depth of the public capital markets and promote enhanced trading and price-discovery for smaller public companies.

IN THE HOUSE OF REPRESENTATIVES

Mr. McHENRY introduced the following bill; which was referred to the Committee on

A BILL

To amend the Securities Exchange Act of 1934 to enable national securities exchanges to provide financial incentives to market-makers that adhere to objective standards that increase the liquidity and depth of the public capital markets and promote enhanced trading and price-discovery for smaller public companies.

1 Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,
SECTION 1. SHORT TITLE.

This Act may be cited as the “Liquidity Enhancement for Small Public Companies Act”.

SEC. 2. MARKET QUALITY INCENTIVE PROGRAMS.

(a) RULES OF EXCHANGES.—Section 11 of the Securities Exchange Act of 1934 (15 U.S.C. 78k) is amended by adding at the end the following:

“(e) MARKET QUALITY INCENTIVE PROGRAMS.—

“(1) IN GENERAL.—Notwithstanding any provision of this title or any other provision of law, the Commission shall not propose, adopt, maintain, or enforce any rule, regulation, policy, or procedure that directly or indirectly bars a national securities exchange from adopting and administering a program pursuant to exchange rules under which the exchange, an entity that lists securities on a national securities exchange, an entity determined appropriate by the Commission, or any other entity determined appropriate by a national securities exchange, provides financial incentives to market makers that adhere to standards of market quality established by the rules of the exchange.

“(2) PROCEDURE.—The procedure by which a national securities exchange provides financial incentives to market makers pursuant to paragraph (1) shall be set forth in the rules of the exchange and
the exchange shall provide financial incentives only
to those market makers that maintain specified mar-
ket quality standards that include aggressive quoting
requirements.

“(3) LIMITATION.—Any financial incentive pro-
vided to market makers described in paragraphs (1)
and (2) shall be paid only by a national securities
exchange and may not be paid directly to a market
maker by an entity that lists securities on the ex-
change.”.

(b) RULES OF ASSOCIATIONS.—Section 15A of the
amended by adding at the end the following:

“(n) MARKET QUALITY INCENTIVE PROGRAMS.—A
national securities association registered under this sec-
tion may not adopt, maintain, or propose any rule, regula-
tion, policy, or procedure that directly or indirectly bars
a national securities exchange from having a program
under which the securities of an issuer determined appro-
priate by the Commission for listing on a national securi-
ties exchange provides financial incentives to market mak-
ers that adhere to standards of market quality established
by the exchange.”.