Knight

Leonard J. Amoruso
General Counsel

Knight Capital Group, Inc.
545 Washington Boulevard
Jersey City, New Jersey 07310
Tel 201.222.9400
Fax 201.557.6853
Toll Free 800.544.7508
www.knight.com

March 21, 2011

Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, N.W.
Washington, D.C. 20549-1090

COMMENT

Re: File No. 265-26; Joint CFTC-SEC Advisory Committee Recommendations Regarding Regulatory Reponses to the Market Events of May 6, 2010

Dear Ms. Murphy:

Knight Capital Group, Inc.[1] ("Knight") welcomes the opportunity to comment on the recommendations of the Joint CFTC-SEC Advisory Committee (the "Committee") detailed in its report entitled, "Recommendations Regarding Regulatory Responses to the Market Events of May 6, 2010" (the "Report"). Knight fully supports the committed efforts of the SEC, CFTC, and the Committee to ensure that the U.S. equity market operates as effectively as possible. Knight believes that the comprehensive review of equity market structure, as begun last year with the SEC's Concept Release, should continue.

As discussed in more detail below, we have limited most of our comments to those recommendations which could have severe, adverse consequences for investors and the marketplace.

1. Volatility

Knight generally supports the addition of a mechanism to pause trading in times of extreme volatility. As we have suggested previously, we strongly suggest that a holistic approach be applied with regard to circuit breakers, clearly erroneous trade breaks and any system-wide market pauses.[2] We continue to have concerns relating to the manner in

---

[1] Knight Capital Group, Inc., through its subsidiaries, is a major liquidity center for foreign and domestic equities, fixed income securities, and currencies. On active days, Knight can execute in excess of five million trades, with volume exceeding 10 billion shares. Knight's clients include more than 4,000 broker-dealers and institutional clients. Currently, Knight employs more than 1,300 people worldwide. For more information, please visit: www.knight.com.

[2] Please see, Knight's comment letter (dated: June 4, 2010) on "Trading Halts Due to Extraordinary Market Volatility Rules" File Numbers: SR-BATS-2010-014, SR-BX-2010-037, SR-NASDAQ-2010-061, SR-NSX-2010-05, SR-NYSE-2010-39, SR-NYSEArca-2010-41, SR-NYSEAmex-2010-46, SR-ISE-2010-48, SR-EDGA-2010-01, SR-EDGX-2010-01, SR-CBOE-2010-047, SR-FINRA-2010-025.

which the various regulatory halts will interact. Currently, there are five (5) marketplace rules which could halt, pause or otherwise restrict trading based on market movements:

a. NYSE Liquidity Replenishment Points
b. NASDAQ's recently approved Volatility Guards
c. Alternative uptick rule under Regulation SHO
d. Stock-by-stock circuit breakers
e. Market-wide circuit breakers

These five different trading frictions could all be triggered during volatile market periods, creating a great deal of confusion and uncertainty. Additionally, we believe that there are important operational issues relating to the manner in which a large number of halted securities will re-open at different intervals should another market-wide downturn like May 6 occur.

As to limit up/limit down, we believe that this proposal has potential benefits and should be tested in the equity market, as it could replace or supplement the current circuit breaker program. We would emphasize, however, that the limit up/limit down mechanism is untested in U.S. equities, hence there is insufficient data to understand the impact on equities market structure. We realize that this mechanism has been effective in the listed derivatives market, but it should be piloted and analyzed before a wholesale implementation takes place.

2. Liquidity Enhancement Issues

The committee made six recommendations with regard to liquidity enhancement issues. Some of these recommendations would have profound implications on the current equity market structure and call into question the very tenets of Regulation-NMS.[3] Such issues raised as *Liquidity Pricing and Liquidity Rebates* could have merit and should be explored as part of the review of equity market structure initiated with the SEC's Concept Release. With regard to *Market Maker Obligations*, Knight supports enhanced obligations as one strategy to create a more effective market structure.[4]

The *Preferencing, Internalization, and Routing Protocols* section proposed by the Committee is deeply concerning and would present a radical revision to equity market structure. In our view, such a dramatic shift in market structure is not justified and would negatively impact investors of all characteristics. As we have stated previously, a thorough quantitative analysis would need to be undertaken in order to even consider justification for the changes proposed.

---

[3] Please see, Knight's comment letter (dated: April 25, 2010) submitted in connection with Securities Exchange Act Release No. 34-61358 (SEC Concept Release on Equity Market Structure).
[4] Please see, Knight's comment letter (dated: July 9, 2010) on marker maker obligations.

a. Internalization

Broker-dealer internalization, ATSs, dark pools and public venues all serve an important function and benefit the market. Between them is the competitive fabric of the U.S. equity market structure. Each business model serves the needs of a particular segment of investors and traders. All market participants benefit from the level of choice, innovation and service that the U.S. equity market structure offers. Conversely, market participants would truly suffer if one business model were favored over others.

In broad terms, internalization offers many benefits to investors – large and small. Internalization offers retail and institutional investors a cheap, fast and safe method for executing their orders.

Internalization exists because of client demand, and it has been an integral part of the equities markets for decades. It is an execution choice that offers:

- low transaction costs
- speed and certainty of execution
- minimal information leakage
- price and share improvement
- extremely low transactional costs

Some of the very important quantifiable benefits of internalization include tens of millions of dollars in price improvement that goes back to the customer. By way of illustration, according to Rule 605 public data, over $215 million in price improvement was provided to investors in 2010 by five of the largest market making firms. That is money that goes directly into the pockets of retail investors that can then be re-invested back into the economy. Additionally, these numbers do not include the millions of shares of liquidity enhancement market makers also provide investors when internalizing trades.

Internalization is available for all investor types and the market has been significantly flattened by the extremely networked lattice structure of venues. In a word, internalization has offered the investor "choice." Investors are free to choose where and how their orders get executed. For example, they are free to route their order to an exchange, a dark pool, or to a broker who commits capital to internalize the order. This level of choice is what makes the U.S. markets the fairest and most efficient markets in the world. We should applaud and encourage this freedom of choice and not look to restrict or hinder an investor's right to choose. To move away from the current networked venue system, with its lit and dark venues that offer more execution flexibility, would be a step backward and would likely reduce the number of market making firms providing this critical liquidity to investors. From the point of view of retail investors, the market has never been so inclusive and efficient. The readily available access to numerous venues has allowed small investors to yield the benefits of internalization via price improvement, lower costs and improved spreads. If a retail

broker is not connecting its clients to various possible sources of liquidity and offering the opportunity for internalization, one has to question whether the investor is receiving best execution.

Many have posed the following question time and again:

> "*What is the quantitative and qualitative justification for taking steps to change or slow internalization?*"

To date, there has been no answer offered and no credible data presented to support such a dramatic shift in market structure.

b. Trade-at

Knight similarly opposes the concept of a trade-at rule. As we have noted in previous comment letters, a trade-at rule would discourage the competition and innovation in the equity markets that have driven down trading costs, increased liquidity, increased speed of execution and decreased trading friction.

Such a rule would:

- add significant costs to retail and institutional orders
- eliminate or restrict investor choice
- minimize competition and competitive innovation
- force many users of lower cost alternative venues to pay access fees
- reduce liquidity provided by market makers as increased costs would outweigh their liquidity provision ability in most cases
- vastly increase quote message traffic and quote flickering as firms would be forced to be at the NBBO (likely at the lowest permissible quantity) to service their customers
- significantly impact the ability of all investors (both long-term and short-term investors) to use non-displayed trading venues (which typically do not place orders into the displayed markets) to handle their sensitive order flow
- limit the ability of exchanges and other displayed venues from executing their own non-displayed liquidity

The routing of inter-market sweep orders ("ISOs") to the full displayed size of NBBO quotations would significantly reduce the ability to offset customer orders and may well signal to other market participants that there may be additional order flow in the sending trading venue.

Furthermore, such a proposal would increase intra-day volatility as the stabilizing impact of the enhanced liquidity that comes with internalization would disappear. We also

believe that NBBO "jitter" would be greatly increased, resulting in far more volatility as well as a corresponding increase in quote traffic and operational strain on infrastructure.

There appears to be a perception that a trade-at rule would bring more liquidity to the visible market. We disagree. In fact, there is no evidence (credible or otherwise) to support such a belief.

The SEC has considered the essential elements of the trade-at concept over the last four decades in connection with its examination of a central limit order book ("CLOB"). Each time the viability of a CLOB was reviewed, it was determined that a CLOB would hinder innovation and competition and impede market efficiency. We believe that the detrimental consequences of such a radical move far outweigh any possible benefit.

In short, there has been no qualitative or quantitative data offered to suggest that such shift in market structure is warranted. Rather, the evidence offered in support has been anecdotal at best. As a result, we strongly encourage the SEC to proceed with the same thoughtful consideration that has guided its decisions in the past. It should demand empirical data, and thoroughly vet that data before making any determination to propose such a rule.

3. Regulators' Access to Information

The Committee suggests that the SEC process the Consolidated Audit Trail ("CAT") proposal with a sense of urgency.

Knight fully supports the SEC's stated goal of creating a more robust and effective cross-market order and execution tracking system.[5] Knight believes that the U.S. markets today are well regulated, and this is underscored by considerable volumes of data collected by regulators, such as OATS, ACT, OTS, COATS, Blue Sheets and other SRO audit trails.[6] Among other things, these data collection processes are used to regulate insider trading, market manipulation, Regulation SHO, Regulation M, Regulation NMS, order handling rules and a variety of other rules and regulations. While it is true that all of this data is not centralized, comprehensive trading surveillance is accomplished through existing regulatory reporting and is further monitored and overseen in extensive examination processes conducted by SROs and the SEC.

Knight believes that the CAT, while laudable in its intent, is not practically feasible as proposed. The vast ocean of data that the proposal contemplates the CAT would collect is unparalleled by any existing regulatory data collection process. The proposal would do

---

[5] Please see, Knight's comment letter (dated: August 11, 2010) on the Consolidated Audit Trail Proposal, Securities Exchange Act Release No. 34-62174.

[6] By way of illustration, Knight, through its subsidiaries, compiles over 100 million lines of trade data for various regulatory agencies every trading day.

much more than reorganize information that is currently reported, managed and utilized by SROs in various processes throughout the industry. Rather, this proposal requires the "real-time" delivery of data whose breadth and depth encompasses order, trade and quote information across a wide spectrum of trading instruments.

Included within the outlines of basic order information would be a dizzying array of data, including customer identification, advisor identification, account number, account type, customer type, the date an account was opened, commissions earned and large trader identification.

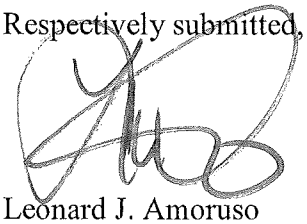
In our view, more data is not always the right answer -- as it could make it much harder to find the signal in the noise. As we have noted previously, we believe that the enhancement of existing regulatory audit trails, as suggested by FINRA, would be a more efficient and effective means to achieve the SEC's stated goals. We respectfully suggest that these measures be fully explored before proceeding with a complete (and very expensive) overhaul of regulatory reporting processes.

CONCLUSION:

In conclusion, Knight appreciates the work of the Committee. We believe that critical debate and detailed analysis are the keys to successfully creating the most effective and efficient market structure possible.

Thank you for providing us with the opportunity to comment on these recommendations. We would welcome the opportunity to discuss our comments further.

Respectively submitted,



Leonard J. Amoruso

cc SEC Chairman Mary L. Schapiro
SEC Commissioner Kathleen L. Casey
SEC Commissioner Elisse B. Walter
SEC Commissioner Luis A. Aguilar
SEC Commissioner Troy A. Paredes

CFTC Chairman Gary Gensler
CFTC Commissioner Michael Dunn
CFTC Commissioner Jill E. Sommers
CFTC Commissioner Bart Chilton
CFTC Commissioner Scott D. O'Malia

CFTC-SEC Joint Advisory Committee member Brooksley Born
CFTC-SEC Joint Advisory Committee member John Brennan
CFTC-SEC Joint Advisory Committee member Robert Engle
CFTC-SEC Joint Advisory Committee member Richard Ketchum
CFTC-SEC Joint Advisory Committee member Maureen O'Hara
CFTC-SEC Joint Advisory Committee member Susan Phillips
CFTC-SEC Joint Advisory Committee member David Ruder
CFTC-SEC Joint Advisory Committee member Joseph Stiglitz

Robert W. Cook, Director, SEC Division of Trading and Markets
James Brigagliano, Deputy Director, Division of Trading and Markets
David Shillman, Associate Director, Division of Trading and Markets
Daniel Gray, Market Structure Counsel, Division of Trading and Markets