Knight

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

Leonard J. Amoruso
Senior Managing Director
General Counsel

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Ms. Elizabeth M. Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE: Consolidated Audit Trail Proposal
Securities Exchange Act Release No. 34-62174 (File No. S7-11-10)

Dear Ms. Murphy:

Knight Capital Group, Inc. (Knight)[1] welcomes the opportunity to comment on the proposed new Rule 613 that would require national securities exchanges and national securities associations to act jointly in creating a national market system plan to develop, implement and maintain a consolidated order tracking system or consolidated audit trail (CAT) with respect to the trading of NMS securities.[2]

Knight supports the SEC's stated goal of creating a more robust and effective cross-market order and execution tracking system. 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.[3] 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

[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 ten billion shares. Knight's clients include more than 3,500 broker-dealers and institutional clients. Knight employs more than 1,300 people worldwide. For more information, please visit: www.knight.com.
[2] The proposed rule initially covers NMS securities only. Application of CAT to other securities at a later time is contemplated within the rule proposal. The views expressed in this comment letter have equal treatment to any expansion of CAT to other classes of securities such as non-NMS equities, fixed income, SWAPs, etc.
[3] By way of illustration, Knight, through its subsidiaries, compiles over 100 million lines of trade data for various regulatory agencies every trading day.

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 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 the large trader identification which has yet to be created. We cannot emphasize enough that more data is not always the right answer, as it could make it much harder to find the signal in the noise. Additionally, with respect to the customer identification component of this rule, the industry will need to implement a centralized customer identification system -- a monumental task in and of itself.[4]

Knight also believes that real-time regulatory reporting of large strings of trading data is inconsistent with the design of the vast majority of the order handling and trade execution systems in use in the industry today. Today, real-time regulatory reporting is typically limited to a relatively small amount of trading data in comparison to the new CAT requirements. With good reason, comprehensive sets of order related information are delivered to regulators after the trading session has concluded. The current model allows for a more efficient collection of the large amount of client, order and trading related data. Batch processes package into regulatory file formats information that is located in numerous and varied data tables and flat files.

A replacement of all industry systems to meet the requirements set forth in the proposal would be a tremendous and very costly undertaking. Order management systems typically do not support real-time reporting and a total revamping of a myriad of systems would be necessary. This would not only take years to complete, but the cost to the industry and investors would be enormous.[5] We firmly believe that data quality would also be sacrificed through real-time

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[4] The customer identification requirement carries with it obvious, significant privacy concerns. In our view, the consequence and breadth of this particular requirement makes it appropriate for a separate rule proposal, so that its very serious implications can be properly studied, vetted and addressed.

[5] While it may be possible to re-engineer existing systems to meet the CAT requirements, it would then result in a patchwork of regulatory reporting systems within the industry which would be extremely difficult for firms to manage. Thus, in order to responsibly administer the wide array of new (and existing) reporting requirements, the industry would have to replace all current systems – to achieve a single, unified reporting regime. The cost to the industry and investors would be significant.

reporting rather than a more measured time frame such as T+1, since a real-time process is certain to be replete with data integrity issues. Consequently, the concomitant ability to identify actual emerging regulatory anomalies will be undermined. Hence, we firmly believe that additional study is required to determine the impact, costs and contingencies of the proposed processes.

We believe that there are alternative methods that could effectively accomplish the proposal's stated goals at a substantially lower cost than CAT. For example, FINRA's Order Audit Trail System (OATS) already requires clock synchronization (among other things) and collects a substantial amount of the information identified in CAT. Since the data is submitted shortly after each completed trading session, firms are able to reconcile all of their systems to gather each of the necessary data points and place them in the required format as they relate to order handling, routing and execution. To the extent that information sought under CAT is different than required under OATS, we believe that the OATS system can be retrofitted to accommodate such requirements in a more cost effective and efficient manner. Moreover, since the vast majority of U.S. broker/dealers are FINRA members, most have years of experience managing the OATS information delivery process and are accustomed to making changes to OATS reporting.

As for the bid/ask data mandated by CAT, market data related to bid/ask activity could be enhanced by adding more information to the quote stream. Additionally, certain data could be delivered with a trade report so that key areas of concern can be monitored by the appropriate regulatory authority on a real-time basis. Collection of these various data sets by a central repository could help set the stage to enhance the current regulatory oversight process. The industry is better positioned to provide information through these existing systems and could accomplish the changes in a more cost effective manner.

We also believe that enforcement of CAT, if it were adopted, should be accomplished through a policies and procedures rule framework – similar to that of Regulation NMS. The rule should set forth specific guidelines regarding the manner in which firms should evaluate their data integrity. Incorporated within the rule should be language that provides a safe harbor to firms that follow these guidelines and who take reasonable steps to manage the integrity of their data. To enforce the rule from a strict liability perspective would simply be the wrong approach and would result in thousands of technical (non-material) violations, which is clearly not the intent of the rule.

Conclusion

We commend the Commission for its efforts to enhance transparency and fairness in the markets. However, Knight believes that the proposed changes will not have the intended effects, but rather may have a number of very costly, negative consequences. Importantly, we believe that the enhancement of existing regulatory audit trails will be easier to implement and will be able to target areas of emerging regulatory interest much faster than could be done through CAT.

Knight supports market transparency and a thoughtful regulatory reporting structure that allows trading information to be made available to SROs and the SEC in a timely and consistent manner. In determining whether to adopt CAT, we respectfully urge the Commission to evaluate and leverage all existing regulatory systems, consider carefully the potential for unintended consequences and ensure that the limited benefits associated with this proposal exceed the unprecedented costs which will be borne by market participants and investors.

Thank you for providing us with the opportunity to comment on this rule proposal. Knight would welcome the opportunity to discuss our comments with the Commission.

Respectively submitted,

Leonard J. Amoruso
General Counsel
Knight Capital Group, Inc.

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
Robert W. Cook, Director, SEC Division of Trading and Markets
James Brigagliano, Deputy Director, SEC Division of Trading and Markets
David Shillman, Associate Director, SEC Division of Trading and Markets
Henry Hu, Director, SEC Division of Risk, Strategy, and Financial Innovation