Knight

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

Re: **Securities Exchange Act Release No. 34-60684**
File No. S7-21-09, Elimination of Flash Order Exception from Rule 602 of Regulation NMS

Dear Ms. Murphy:

Knight Capital Group, Inc.[1] ("Knight") welcomes the opportunity to comment on the Securities and Exchange Commission's (the "Commission") proposal relating to the Elimination of the Flash Order Exception from Rule 602 of Regulation NMS. Knight fully supports the Commission's initiative to review the market structure evolution that ultimately shapes the U.S. equity market. Many observers are in agreement with Knight that the U.S. equity market is the best functioning market globally. This has been achieved through fact-based decisions, prudent rulemaking, structural transparency and timely and efficient disclosure, all of which are products of a competitive and fair market structure that allows choice and fosters innovation.

By all measures, there has never been a better time to be an investor (institutional or retail) in U.S. equities.[2] The U.S. equity market is the fairest, most seamlessly

[1] Knight Capital Group, Inc. is the parent company of Knight Equity Markets, L.P., Knight Capital Markets LLC, Knight Direct LLC, Knight BondPoint, Inc., and Knight Libertas LLC all of whom are registered with the SEC and various self-regulatory organizations. Knight Capital Europe Limited and Hotspot Fxi Europe Limited are authorized and regulated by the Financial Services Authority. Knight Capital Asia Limited (f/k/a Knight Equity Markets Hong Kong Limited) is authorized and regulated by the Securities and Futures Commission. Knight, through its affiliates, is a major liquidity center for the U.S. securities markets. We trade nearly all equity securities. On active days, Knight can execute in excess of five million trades, with volume exceeding ten billion shares. Knight's clients include more than 3,000 broker-dealers and institutional clients. Currently, Knight employs more than 1,100 people worldwide. For more information, please visit: www.knight.com.

[2] Execution quality (speed, price, liquidity) are at historically high levels, while transaction costs (explicit and implicit) are at historically low levels. For example, market orders under 2,000 shares in both the S&P 500 and Nasdaq-100 (for the period between January and July 2009) were typically executed in under a ½ second and received a price better than the national best bid or offer ("NBBO"). The best execution obligations of order routing firms have driven market venues to compete fiercely with one another, leading to significantly improved levels of execution performance.

transparent market worldwide. During the course of the last eighteen months -- a tumultuous period to say the least -- the equity market operated flawlessly. One may not have liked the price direction at all times, but investors could act on their investment decisions swiftly and with surety. The equity market never seized up like some of the credit markets. In fact, the market was open every day all year, distinguishing itself in its reliability and robustness.

Knight believes that sensible rulemaking requires periodic analysis, and regulatory fine-tuning is crucial to the continued quality of the U.S. equity market. Therefore, we firmly believe the rulemaking process should be based on a careful analysis of all relevant factors. To that end, Knight supports a concept release that allows ample time for thoughtful analysis and holistic reflection on the many changes that the U.S. equity market has gone through over the past decade and since the last exercise of this type.[3] The rigorous debates stimulated by a concept release among the many disparate market participants (broker/dealers, institutions, exchanges, ECNs, ATSs and off-exchange liquidity providers), regulators, academics, investors and industry experts will forge a stronger market structure than can be achieved by a single change within the overall structure. Moreover, approaching market structure changes from a higher level perspective mitigates the opportunity for small changes to yield unintended consequences. This point cannot be overstated. The potential for significant unintended consequences is certainly an important consideration when looking at issues in isolation. Consequently, does it make more sense to view this current rule proposal together with the recently issued proposal addressing dark liquidity?[4]

We agree fully with the sentiment articulated by Commissioner Kathleen L. Casey during the Commission's open meeting on dark liquidity that occurred on October 21, 2009:

> But I think it is necessary for the Commission to first develop a deeper understanding of the whole range of U.S. equity market structure issues before we consider adopting these amendments. In my view, it is important that regulators act with humility. Sometimes we don't know what we don't know, and if we rush to regulate without a complete understanding of the extent to which complex and dynamic activities may be interrelated, the specter of unintended consequences looms large. The regulatory process for rethinking market structure, like short selling, needs to be driven by data, not politics or unfounded assumptions.

Knight has advocated repeatedly that choice and competition, rather than mandated and prescribed paths to trading, benefits market participants and all investors. Knight does not believe that market structure debates that are fundamentally competitive in nature should be addressed by regulation. Knight further believes that the U.S. equity market structure should encompass a variety of execution choices for the many different types of investors that execute trades on a daily basis. A pension fund trader looking to sell two

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[3] The comprehensive proposal, adoption and implementation of Regulation NMS.
[4] Release No. 34-60997; File No. S7-27-09 Regulation of Non-Public Trading Interest (November 23, 2009).

million shares of a particular stock views the market and the execution choices available with a vastly different perspective than a self-directed 401(k) investor who wants to purchase 200 shares for a retirement account.

As Commissioner Troy A. Paredes succinctly stated at the same meeting on dark liquidity on October 21, 2009:

> As the Commission considers this rulemaking going forward, it is important to recognize that our markets operate more efficiently and effectively because of innovation and competition. Investors benefit when the regulatory regime affords trading venues — whether they are exchanges or ATSs — room to offer an evolving array of products, services, and trading opportunities that serve the diverse interests of investors.

The choices that exist in the current U.S. equity market structure are *not* an example of a two-tiered market but a multi-faceted market that allows different investor types to make choices based on their own needs. Each investor or trader will balance his or her own need for price, speed, or any other factor before deciding which execution venue, or what order type to employ to execute a trade. The U.S. equity market offers dozens of execution venues, which attract order flow in a variety of ways, including pricing[5], speed of execution, average size of execution and the types of orders offered. Competition is intense, as each venue responds and innovates to the needs of its own client base. The venue and order choices investors have today are unparalleled both historically and globally.

Most importantly, today investors (both large and small) have access to some of the most sophisticated trading technologies and infrastructure available on Wall Street. When the buy button for the 200 share order from the self-directed 401(k) investor is pressed, the order enters a dizzying array of execution possibilities and a labyrinth of interconnected electronic infrastructure, all of which are at the investor's disposal. An execution report appears confirming the transaction on the investor's computer screen – many times at a price that is better than the NBBO. When coupled with the already low, discounted commission, the investor pays little to no execution costs. It is the robust post-Regulation NMS infrastructure that has developed in recent years that has taken the client order on this elaborate course, potentially streaming through multiple venues, both dark and light, using a variety of order types to maximize execution quality. In the end, the investor has received a better than expected price in fractions of a second.

Prior to any changes being made to the overall market structure or to any of its components, Knight believes that a thorough empirical study should be planned and implemented. As a primary goal, Knight would recommend this study look at the U.S. equity market holistically, in terms of execution metrics such as best execution, speed, price improvement, efficiency and quality. Secondly, we recommend it look at the

[5] Dozens of pricing adjustments were submitted by a variety of exchanges over the course of 2009.

interaction of the various market centers, as well as the individual centers and their order types, fill rates and other metrics.

Similar sentiments were expressed by Commissioner Paredes at the open meeting on dark liquidity on October 21, 2009:

> Markets are complex systems comprised of numerous components and features that must work together to ensure a well-functioning "whole." I am concerned that by taking steps now to regulate particular aspects of market structure, the Commission will frustrate its ability to undertake a more constructive comprehensive review of market structure. I am concerned that considering particular features of dark pools in isolation increases the risk of unintended adverse consequences and will not yield the best results for our markets.

Knight appreciates the merits of the debate taking place with regard to certain order types and recognizes this as a component of an overall conversation. Just as a botanist would not discuss the leaf of a tree without first discussing the tree itself, Knight believes it is premature to discuss specific order types when the overall market structure must be explored first.

Let data analysis drive the discussion of the merits of flash trading. Knight understands both sides of the debate. Whether this order type, which impacts a small fraction of all orders, is found to be operating to the detriment or benefit of investors should be part of the overall market structure debate.

Thank you for providing us with the opportunity to comment on these rule proposals. We would welcome the opportunity to discuss our comments with the Commission.

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
James Brigagliano, co-Acting Director, SEC Division of Trading and Markets
Daniel M. Gallagher, co-Acting Director, SEC Division of Trading and Markets