



KCG Holdings, Inc.  
545 Washington Boulevard  
Jersey City, New Jersey 07310  
1 201 222 9400 tel  
1 800 544 7508 toll free  
[www.kcg.com](http://www.kcg.com)

June 12, 2015

Via Electronic Mail ([rule-comments@sec.gov](mailto:rule-comments@sec.gov))

Mr. Brent J. Fields  
Secretary  
U.S. Securities and Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549-1090

**Re: File No. SR-BYX-2015-25**

Dear Mr. Fields:

KCG Holdings, Inc. ("KCG")<sup>1</sup> submits this letter to comment on the above-referenced proposal filed by the BATS Y-Exchange, Inc. ("BYX") with the Securities and Exchange Commission ("Commission"). BYX is proposing to voluntarily cease quoting and trading certain illiquid securities that maintain a primary listing on other U.S. stock exchanges. BYX anticipates that by facilitating the concentration of liquidity for certain thinly-traded securities on the listing exchange it may enhance the market quality of these illiquid securities. KCG supports BYX's proposal as a reasonable approach to addressing the persistent problem of trading illiquid securities in a fragmented environment.

**BYX's Proposal.** BYX proposes to amend its rules to clarify circumstances under which it may voluntarily cease to quote and trade certain specific illiquid securities that maintain a primary listing on other U.S. stock exchanges until such time that these securities satisfy threshold liquidity requirements.<sup>2</sup> Specifically, the proposal would apply to any security with a consolidated average daily volume ("ADV") of 2,500 shares<sup>3</sup> or less during the preceding 90 days and continue to apply until the security's consolidated ADV exceeds 5,000 shares over a rolling 90-day period, at which time the security would graduate to the competitive market

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<sup>1</sup> KCG is a global financial services firm that offers investors a range of services designed to address their trading needs across asset classes, product types and time zones. As an independent, electronic market maker, KCG combines advanced technology with exceptional client service to deliver greater liquidity, lower transaction costs, improve pricing, and provide execution choices. KCG is a registered market maker on numerous U.S. cash equity and options exchanges. As a market maker, KCG commits its capital to facilitate trades by buyers and sellers on exchanges, ATSS, and directly to our clients.

<sup>2</sup> In its filing, BYX proposes to amend Rule 11.2 and notes that EDGA Exchange, Inc., EDGX Exchange, Inc., and BATS Exchange, Inc. will separately file substantially similar proposed rule changes with the Commission.

<sup>3</sup> According to BYX estimates, setting a threshold of consolidated ADV of 2,500 shares during the preceding 90 calendar days would impact approximately 700 securities.



of multiple exchange trading. Under the proposal, BYX would retain discretion over whether to quote and trade illiquid securities and would consider such factors as member or investor feedback as well as whether other non-listing exchanges also cease quoting and trading such securities.

BYX believes that concentrating quoted liquidity in thinly-traded securities on the listing exchange would incent liquidity providers to quote more competitively (*e.g.*, narrower bid-ask spreads and greater quoted depth of book) because it would: (i) reduce liquidity providers' risk of adverse selection inherent in quoting in a fragmented market; (ii) provide greater certainty of execution on the one exchange at which liquidity providers are quoting; and (iii) enhance competition for order book priority at the NBBO and throughout the depth of book.

**KCG Supports Market Structure Innovation.** KCG believes that the U.S. equity markets are well-functioning, robust and fair. Nonetheless, particular features of our market structure may not be optimal with respect to all securities. As noted by BYX, investors often experience difficulty trading illiquid securities and this experience may be exacerbated by the "one size fits all" approach of Regulation NMS (*e.g.*, tick size, access fees, order protection, locked and crossed markets). KCG believes market participants should implement thoughtful measures to facilitate the trading of illiquid securities and thus we support BYX's proposal:

- By providing the primary listing exchange exclusivity with respect to the quoting and trading of thinly-traded securities, BYX's proposal should allow that venue to better innovate its market structure for those securities (*e.g.*, tick size, access fees, periodic auctions), which will likely lead to improved market quality for these securities;
- KCG supports commercial (*i.e.*, non-regulatory) approaches driven by exchange operators to address the non-liquid portion of the Regulation NMS universe. The benefit of a commercial initiative is that it can be implemented more quickly than a regulatory mandate – such as an SEC rulemaking - and can be more easily adjusted. In addition, although BYX's proposal essentially provides the primary listing exchange with a monopoly on quoting and trading in illiquid securities, the voluntary nature of the initiative should act as a check to ensure a listing exchange does not abuse its monopoly position;
- Unlike other recent initiatives that are larger in scope and potentially disruptive – such as the Tick Size Pilot or the creation of venture exchanges - BYX's proposal is an incremental market structure adjustment. For example, BYX's proposal would not



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impair the ability of wholesalers – like KCG – to continue to provide liquidity, price-improvement and other brokerage services to our clients; and

- KCG supports leadership by exchange operators. By ceasing to quote and trade illiquid securities, BYX would relinquish a certain amount of market share to its competitors. We are encouraged to see an exchange operator attempt to implement measures that are better for the market as a whole even though the measures may run counter to its own commercial interests. We hope BYX's initiative will prompt other exchanges to follow suit and improve overall market quality for illiquid securities by adopting similar coordinated amendments to reduce the number of displayed venues on which illiquid securities are quoted and traded.

KCG appreciates this opportunity to comment on BYX's proposal. Please do not hesitate to contact me at [REDACTED] or [REDACTED] if you have questions regarding any of the comments provided in this letter.

Sincerely,

John A. McCarthy  
General Counsel

cc: The Honorable Mary Jo White, Chair  
The Honorable Luis A. Aguilar, Commissioner  
The Honorable Daniel M. Gallagher, Commissioner  
The Honorable Michael S. Piwowar, Commissioner  
The Honorable Kara M. Stein, Commissioner  
Stephen Luparello, Director, Division of Trading and Markets  
Gary Goldsholle, Deputy Director, Division of Trading and Markets  
David Shillman, Associate Director, Division of Trading and Markets