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May 7, 2012

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. 34-66819;
File No. SR-FINRA-2011-058 Self-Regulatory Organizations; Financial Industry
Regulatory Authority, Inc.; Notice of Filing of Amendment No. 1 to Proposed Rule
Change to Amend FINRA Rule 6433 (Minimum Quotation Size Requirements for OTC
Equity Securities)

Dear Ms. Murphy:

Knight Capital Group, Inc.¹ (“Knight”) welcomes the opportunity to submit a follow-up comment letter² in connection with the above-referenced Financial Industry Regulatory Authority, Inc. (“FINRA”) proposal to Amend FINRA Rule 6433 and change the Minimum Quotation Size Requirements for OTC Equity Securities, FINRA responses to comments³, the SEC Order Instituting Proceedings to Determine Whether to Disapprove Proposed Rule Changes⁴, and FINRA’s Amendment No. 1 filed on April 17, 2012.

FINRA’s stated goals in their proposal to amend the tier sizes in OTC Equity Securities and the amendment of FINRA Rule 6433 is to:

- Simplify the tier structure;

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 10 million trades, with volume exceeding 15 billion shares. Knight’s clients include more than 3,000 broker/dealers and institutional clients. Knight employs more than 1,400 people worldwide. For more information, please visit: www.knight.com.

² See Letter from Michael T. Corrao, Managing Director, Knight Capital Group, Inc., dated November 16, 2011 (“Knight Letter I”) and Letter from Michael T. Corrao, Managing Director, Knight Capital Group, Inc., dated January 13, 2012 (“Knight Letter II”).

³ See Email from Marc Menchel, Executive Vice President and General Counsel for Regulation, dated November 30, 2011 and Letter from Stephanie V. Dumont, Senior Vice President and Director of Capital Market Policy, dated December 23, 2011.

⁴ See Securities Exchange Act Release No. 66168 (January 17, 2012), 77 FR 3515 (January 24, 2012) (Order Instituting Proceedings to Determine Whether to Disapprove File No. SR-FINRA-2011-058).



- parallel the approach taken by the national securities exchanges for securities priced at or above \$1.00;
- expand the scope of the Rule to apply to all quotations or orders displayed on an inter-dealer quotation system;
- incorporate the requirements of FINRA Rule 6434 (Minimum Pricing Increments for OTC Equity Securities) proposal and, importantly;
- facilitate the display of customer limit orders under FINRA Rule 6460.

In Amendment No. 1, FINRA proposed the following alternative changes to the tier sizes:

Original Proposal		Revised Proposal	
Tier Size Range	Minimum Size	Tier Size Range	Minimum Size
\$0.0001- 0.0199	10,000	\$0.0001- 0.0999	10,000
\$0.02-0.2599	1,000	\$0.10 - 0.1999	5,000
\$0.26-0.5099	500	\$0.20 - 0.5099	2,500
\$0.51-0.9999	200	\$0.51 - 0.9999	1,000
\$1.00-174.99	100	\$1.00 - 174.99	100
\$175.00 +	1	\$175.00 +	1

We believe the changes FINRA has made to the tier sizes address many of the points made in the comment letters. More specifically, FINRA’s revised proposal appears to strike an appropriate balance between displayed liquidity from retail limit orders and a tier size requirement for market makers.

Additionally, we support FINRA’s request for a pilot so that the impact of the changes can be evaluated. However, we respectfully suggest that a one year pilot is too long, and that a three to four month pilot period is more than sufficient to gather the necessary data for its analysis. If there were a significant negative impact to liquidity identified with the revised tiers sizes it would be much better for the marketplace if such a problem could be resolved through establishing a shorter pilot as opposed to resolving it through the rule abrogation process.

There is another important issue that must now be considered prior to rendering a final decision on this filing. On April 5, 2012, President Obama signed the Jumpstart Our Business Startups Act⁵ (“JOBS Act”) into law. The potential impact of the JOBS Act must be considered with regard to tier size changes. Our concerns center on the requirement that the SEC conduct a study and provide a report to Congress on the impact of changes to the minimum tick size.⁶ Then, based upon the results of the study, consider the potential implementation of rules to increase the minimum tick size in emerging growth companies. The JOBS Act directive requirements of the study are as follows:

⁵ See H.R. 3606 “an Act to increase American job creation and economic growth by improving access to the public capital markets for emerging growth companies.”

⁶ See HR 3606 The ‘Jumpstart Our Business Startups Act’, Section 106 (b)



The Commission shall conduct a study examining the transition to trading and quoting securities in one penny increments, also known as decimalization. The study shall examine the impact that decimalization has had on the number of initial public offerings since its implementation relative to the period before its implementation. The study shall also examine the impact that this change has had on liquidity for small and middle capitalization company securities and whether there is sufficient economic incentive to support trading operations in these securities in penny increments.

While it is clear that tier size requirements and tick size requirements are quite different, we believe that they are both key components of market liquidity – and, are not mutually exclusive. The establishment of minimum requirements for both initiatives requires the thoughtful analysis of data. We suggest that the establishment of both minimum tick size requirements and minimum tier size requirements be studied and evaluated together and included as part of the SEC study to be conducted under the JOBS Act. Therefore, we suggest that the SEC not approve the proposed FINRA rule until the completion of the required JOBS Act study, and an analysis of the potential change in tick size could have on the pending tier size proposal

Conclusion

Knight commends FINRA for its proposed changes to its rule proposal. However, we believe that the requirements under the JOBS Act do provide strong reason to pause so that both tier size changes and possible tick size changes can be evaluated together.

We welcome the opportunity to discuss our viewpoints in more detail at your convenience.

Respectively submitted,

Michael T. Corrao

cc: Mary L. Schapiro, SEC Chairman
Luis A. Aguilar, Commissioner
Daniel M. Gallagher, Commissioner
Troy A. Paredes, Commissioner
Elisse B. Walter, Commissioner
Robert W. Cook, SEC Division of Trading and Markets
Richard G. Ketchum, FINRA
Thomas R. Gira, FINRA