Knight

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June 22, 2011

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: **Release No. 34-64547; File No. 4-631, Plan to Address Extraordinary Market Volatility Submitted to the Securities and Exchange Commission Pursuant to Rule 608 of Regulation NMS Under the Securities Exchange Act of 1934**

Dear Ms. Murphy:

Knight Capital Group, Inc.[1] ("Knight") welcomes the opportunity to comment on the Plan to Address Extraordinary Market Volatility Submitted to the Securities and Exchange Commission Pursuant to Rule 608 of Regulation NMS Under the Securities Exchange Act of 1934 ("Plan") by various self-regulatory organizations. Knight commends the Commission for its diligent efforts to create a competitive and innovative U.S. equity market.

When considering the various means to address extraordinary market volatility, it appears that Limit Up-Limit Down ("LU/LD") might be a good solution to address the Commission's concerns. In order to properly assess whether LU/LD is a practical solution, the program must be properly piloted and analyzed. Thus, we fully support the Commission's proposals to introduce the LU/LD mechanism in the form of a pilot and in a carefully staged fashion. The effective piloting of LU/LD will help to ensure that the program operates properly and achieves its desired goals, as well as reduces any unintended consequences. Furthermore, as discussed in greater detail below, the success of the program will be dependent, in part, upon the elimination of the exchange-triggered volatility halt mechanisms.

[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 executes in excess of five million trades, with volume exceeding 10 billion shares. Knight's clients include more than 3,000 broker-dealers and institutional clients. With offices across the U.S., Europe and Asia, Knight currently employs more than 1,400 people worldwide. For more information, please visit: www.knight.com.

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Knight strongly recommends prudence and reflection as it relates to the adoption and implementation of the proposed rule. First, we are concerned about introducing an unknown level of complexity to the equity market micro-structure. It is unclear whether investors and market participants will fully understand the application of this rule and the impact of the limit up/down bands to their orders. While the LU/LD mechanism appears to have worked successfully in the futures markets, the retail investor does not typically interact directly in that marketplace. Professional traders and dealers are more common participants in the futures markets. Thus, investor education will be critical for the success of any such initiative. Without it, there will be a great deal of confusion, with investors questioning why their orders are not being immediately executed. This could lead to the erosion of investor confidence, which is the antithesis of the rule's design.

Secondly, as noted above, we are concerned about the potential interplay between the multiple existing volatility trading halt mechanisms currently in effect. As we have noted in our previous comment letters:

> 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 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:
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> 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
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> 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.[3]

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[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.
[3] Please see, Knight's comment letter (dated: March 21, 2011), "Joint CFTC-SEC Advisory Committee Recommendations Regarding Regulatory Reponses to the Market Events of May 6, 2010." File No. 265-26.

This leads to the query, what if all these mechanisms were in place during the financial crisis of 2007-2009? Would the constant trading slowdowns or stoppages across multiple equities throughout the trading day make for a better equity market? We are concerned about both the market impact and operational complexity being introduced by these combinations. Thus, comprehensive analysis and scenario back-testing of the impact of various trading stoppages are critical in order to properly evaluate these scenarios.

Each of these programs was introduced to serve a specific purpose, at a specific time. In certain cases, programs were quickly implemented during periods of critical market volatility. Thus, existing mechanisms that attempt to achieve goals that LU/LD will accomplish should be considered redundant and phased out in order to minimize operational complexity[4] – including, the recently introduced short sale restriction.[5] A streamlining of these functions will make the markets safer and more efficient. In the end, LU/LD appears to be a viable solution and should provide protection against instantaneous volatility caused by large order dislocations in the equity markets.

Additionally, LU/LD should not operate in the first five minutes and last five minutes of the trading day to avoid disturbing the pricing formation mechanism during these two critical periods. Any perceived gap by this allowance should be accomplished with the clearly erroneous trade rules ("CE rules"), which, in our opinion, should only operate during the first and last five minutes of the trading day. Additionally, Knight believes there is a utility in retaining the extension of the CE rules to after-hours trading.

Another area of particular concern with the LU/LD program is in the area of thinly traded, low average daily volume ("ADV") stocks with wide bid/offer spreads. The Commission recognizes in the Plan the need for two tiers of NMS stocks. We applaud this division but recommend a third tier be recognized based on an ADV criterion. This tier of NMS stocks would have such low ADV and such wide bid/offer spreads that the LU/LD program would be unsuitable.[6] Knight suggests that an analysis be performed to determine the proper volume or spread threshold to properly categorize Tier 3 equities with higher thresholds as deemed appropriate for a low liquidity security.

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[4] This would not include the market-wide halt.

[5] Securities Exchange Act Release 34-59748 File No. S7-08-09, Amendments to Regulation SHO. LU/LD as a standalone mechanism will accomplish the primary goals of this rule, with a simpler solution and create less artificial drags on liquidity creation.

[6] Equities in our proposed Tier 3 would potentially have bid/offer spreads in the normal course of trading that were wider than the bands proposed in the LU/LD plan.

In conclusion, while we are concerned that liquidity can be impeded with the introduction of artificial barriers, we believe that the Exchanges are moving in the right direction with a LU/LD pilot that provides a cautionary approach.

Thank you for affording us the opportunity to comment on this rule proposal. We welcome the opportunity to discuss our comments with the Commission.

Respectively submitted,

/s/

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
Robert W. Cook, Director, SEC Division of Trading and Markets