



January 13, 2016

VIA ELECTRONIC MAIL

Robert W. Errett
Deputy Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090

Re: SR-FINRA-2015-055; Proposed Rule Change to Adopt New FINRA Rule 6732 (Exemption from Trade Reporting Obligation for Certain Transactions on an Alternative Trading System)

Dear Mr. Errett:

KCG Holdings, Inc. ("KCG") appreciates the opportunity to respond to the Securities and Exchange Commission ("SEC") in connection with the request for comment on SR-FINRA-2015-055,¹ an immediately effective proposed rule change filed by the Financial Industry Regulatory Authority, Inc. ("FINRA") exempting, under certain conditions, Alternative Trading Systems ("ATs") from trade reporting obligations (the "Proposal").

KCG supports the underlying goal of the Proposal to improve FINRA's surveillance of fixed income trading. However, while the Proposal improves upon previous iterations of similar regulatory proposals, KCG believes that there is a more logical and efficient alternative that satisfies FINRA's regulatory need while also reducing regulatory burdens on the fixed income market. Specifically, KCG would like to take this opportunity to provide its support for the alternative approach, mirroring Municipal Securities Rulemaking Board ("MSRB") trade reporting requirements, advocated by both the Securities Industry and Financial Markets

¹ See Securities Exchange Act Release No. 76677 (December 17, 2015), 80 FR 79966 (December 23, 2015).



Association (“SIFMA”) and the Bond Dealers of America (“BDA”) in their comment letters² on the Proposal.

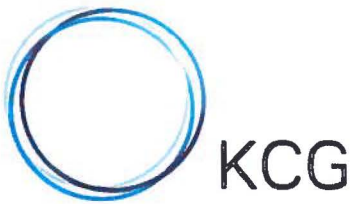
Additionally, KCG believes that the Proposal imposes an unnecessary regulatory burden by requiring a written agreement between an ATS and its subscribers in order to satisfy the exemption’s requirements. First, if FINRA adopts the proposed alternative of mirroring the MSRB’s trade reporting requirements, requiring any type of written agreement would be unnecessary since FINRA is directly imposing the trade reporting obligations on dealers. But even if FINRA does not adopt the proposed alternative, KCG believes that a negative consent letter should be permissible, thereby notifying dealers of their potential obligations while also avoiding costs for subscribers and ATSs associated with negotiating and entering into new written agreements with each other.

Background on KCG BondPoint

KCG BondPoint (“KBP”) is a leading provider of electronic fixed income trading solutions that supplies market participants with access to a centralized pool of liquidity and automated trade execution services. Founded in 1999, KBP assists the fixed income marketplace through product distribution, security analysis, price discovery, and automation of manual trading processes, which ultimately lead to a more transparent and efficient secondary bond market.

KBP operates as a registered ATS, where its subscribers, which include broker-dealers and institutional investors, electronically post bids and offers or submit requests-for-quotes in a variety of fixed income securities. Likewise, subscribers also may electronically place orders and execute trades against prices posted by other participating subscribers on the KBP platform. KBP deploys a cost effective platform micro-structure that enables broker-dealer subscribers to clear and settle ATS transactions directly. Doing so eliminates the need for KBP to serve as a central counterparty on dealer platform activity and helps to decrease associated clearance and settlement fees. KBP believes this cost-minded model has a

² See Letter from Sean Davy, Managing Director, SIFMA, to Robert Errett, Deputy Secretary, Securities and Exchange Commission (January 13, 2016) and letter from Michael Nicholas, Chief Executive Officer, BDA, to Robert Errett Deputy Secretary, Securities and Exchange Commission (January 13, 2016).



downstream effect in allowing broker-dealers to offer more competitive executions to their clients.

FINRA's Proposal

FINRA Rule 6730 imposes certain trade reporting obligations on a "party to a transaction," defined as "an introducing broker-dealer, if any, an executing broker-dealer, or a customer." In the Proposal, FINRA stated that an ATS is a "party to a transaction in a TRACE-Eligible Security occurring through its system and has a TRACE transaction reporting obligation, unless an exception or exemption applies." The Proposal would create an exemption for certain ATSS, such as KBP, from trade reporting obligations when the following conditions were met: (1) the trade was between FINRA members; (2) the trade did not pass through any ATS account; (3) the ATS did not exchange TRACE-Eligible Securities or funds on behalf of the subscribers or take either side of the trade for clearing or settlement purposes; and (4) the ATS entered into a written agreement with each member that is a "party to a transaction" with respect to any trade for which the ATS is exempted, specifying that trades must be reported by such party pursuant to Rule 6730(c)(13) identifying the trade as having occurred on the ATS. Although granted an exemption pursuant to the Proposal, FINRA would still deem the ATS a "party to the transaction" and require the ATS to remit to FINRA a transaction reporting fee for each exempted sell transaction occurring through its system.

The Proposal would also require the ATS to periodically report transaction information. Specifically, an ATS would be required to provide FINRA with data relating to each exempted trade on a monthly basis.

SIFMA/BDA Proposed Alternative

As explained in SIFMA's comment letter, MSRB Rule G-14 imposes full trade reporting obligations upon dealers, requiring dealers to add an indicator to identify transactions executed using the services of an ATS. SIFMA and BDA recommend that such an approach could be adopted by FINRA, alleviating many of the concerns of SR-



FINRA-2015-055³ and potentially reducing compliance costs for dealers. KCG agrees with SIFMA and BDA that FINRA should adopt an approach that is similar to MSRB Rule G-14, directly imposing on dealers the obligation to identify the relevant ATS in a reporting field. KCG believes that such an approach would alleviate many of the concerns held by the fixed income market regarding unnecessary regulatory costs and as well as other potentially unforeseen consequences. For example, under the Proposal, the presence or absence of written agreements between the ATS operator and FINRA member counterparties would impact how many times a particular transaction is reported to TRACE as well as the price and volume information that is subsequently disseminated to market participants, which may result in confusion about or distortion of publicly disseminated information concerning fixed income trading and impact the ability of investors to make judgments concerning a security's liquidity. In fact, in 2013, KCG proposed a similar alternative to FINRA, recommending the creation of a new field in trade reports that would allow reporting counterparties to indicate the MPID of an ATS on which a trade may have been executed.⁴

KCG believes that reducing unnecessary regulatory burdens is a key component of the national market system. Not only would the SIFMA/BDA proposed alternative reduce compliance costs, but it also would create congruence between MSRB and FINRA rules. Incongruent regulations between major regulators only serve to unnecessarily increase technology and compliance costs. These increased costs will ultimately be borne, at least in part, by the investing public. To eliminate such costs, KCG believes that the SEC, FINRA, and the fixed income market should work together to create a coherent and efficient regulatory structure.⁵ Consequently, the SIFMA/BDA proposed alternative meets FINRA's regulatory needs while also reducing potential expenses and therefore should be seriously considered.

³ KCG believes that, given the potential concerns raised by and potential far-reaching consequences of the Proposal, the Proposal should have been subject to full notice-and-comment rather than filing through an immediately effective rule filing.

⁴ See Letter from Elizabeth King, Global Head of Regulatory Affairs, KCG, to Elizabeth Murphy, Secretary, Securities and Exchange Commission (November 12, 2013).

⁵ When adopting the 1975 amendments to the Securities Exchange Act of 1934, Congress provided the SEC with "the power to eliminate all unnecessary or inappropriate burdens on competition" and noted concerns regarding "excessive and unnecessary regulatory restraints . . ." See S. Rep. No. 94-75, at 11-13 (1975).



Written Agreement Requirement

KCG also would like to take this opportunity to comment on the exemption's written agreement requirement. As described above, the exemption would require an ATS to enter into a written agreement with each member that is a "party to a transaction" with respect to any trade for which the ATS is exempted, specifying that trades must be reported by such party pursuant to Rule 6730(c)(13) identifying the trade as having occurred on the ATS.

KCG understands that FINRA will require a written agreement in the form of a positive affirmation rather than a negative consent letter in order to satisfy the written agreement requirement. KCG believes that such a requirement will result in an unnecessary regulatory burden that will make it impracticable for an ATS to meet the exemption's requirements. Requiring an ATS to enter into written agreements with each of its potentially hundreds of subscribers imposes superfluous costs on ATSs and subscribers, especially given the viable alternative proposed by SIFMA.

Obviously, if the alternative approach espoused by SIFMA and BDA is adopted by FINRA, the written agreement requirement is unnecessary since reporting obligations would be imposed directly on dealers by FINRA. But should FINRA not adopt the proposed alternative, KCG believes that ATSs should be able to comply with the proposed exemption through the use of negative consent letters. Negative consent letters have been permitted previously by FINRA,⁶ and KCG does not see a reason why a negative consent letter to an ATS's subscribers could not be utilized to satisfy the exemption's requirements in the Proposal.

⁶ For instance, with regards to the provision of debt research reports, FINRA has permitted members, pursuant to Rule 2242, to obtain consent through negative consent letters sent to certain qualified institutional buyers rather than obtaining positive affirmation. Additionally, FINRA Rule 5270 permits the use of a negative consent letter with regards to the fulfilling or facilitating the execution of customer block orders.



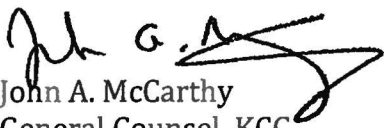
The Notice-and-Comment Requirements of Section 19(b) of the Exchange Act

The Proposal was designated by FINRA as immediately effective pursuant to Section 19(b)(3)(A) of the Act and paragraph (f)(6) of Rule 19b-4 thereunder. To qualify for this designation, the Proposal must not significantly affect the protection of investors or the public interest and not impose any significant burden on competition. The Proposal has the potential to significantly impact investors and the public by distorting publicly disseminated information about fixed income trading and, as highlighted by BDA, will significantly impact competition among fixed income dealers. Accordingly, the Proposal should have been exposed to the public comment and explicit SEC approval process.

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KCG greatly appreciates this opportunity to comment on the Proposal. KCG would be pleased to discuss these comments in greater detail. If you have any questions, please do not hesitate to contact Bill Vulpis at [REDACTED] or John McCarthy at [REDACTED]

Sincerely,


John A. McCarthy
General Counsel, KCG


William Vulpis
Managing Director, KCG BondPoint