Knight

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June 1, 2007

Ms. Nancy M. Morris
Secretary
U.S. Securities and Exchange Commission
100 F Street, NW
Washington, D.C. 20549

Re: Release No. 34–55717; File No. SR–NASD–2007–029
National Association of Securities Dealers, Inc.; Notice of Filing of Proposed Rule Change Relating to Access Fee Display Requirements for the OTCBB

Dear Ms. Morris:

Knight Capital Group, Inc. (Knight)[1] welcomes the opportunity to offer our comments to the Securities and Exchange Commission (Commission) on the recent rule filing of the NASD in which the NASD proposes to amend Rule 6540(c) to no longer require the incorporation of access fees into the publicly displayed quotation of OTC Bulletin Board (OTCBB) securities unless the access fee exceeds certain thresholds.

Knight respectfully opposes this rule filing and requests that the Commission reject the current proposal. Our current view is consistent with the letter we submitted previously to the Commission on this same issue.[2]

The NASD previously proposed to eliminate the requirement of Rule 6540(c) – i.e., the requirement that a participant ATS or ECN reflect non-subscriber access fees in their posted quotations on the OTCBB.[3] In addition to the arguments advanced in our previous letter, Knight also supports fully the arguments offered previously by the Securities Industry Association (now, the Securities Industry and Financial Markets Association), the Securities Trading Association, the Securities Trading Association of

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1 *Knight is the parent company of Knight Equity Markets*, L.P., *Knight Capital Markets* LLC, Direct Edge ECN LLC, Knight Equity Markets International Ltd., Direct Trading Institutional, L.P., ValuBond Securities, Inc., and Hotspot FXR, LLC all of whom are registered with SEC or CFTC. Knight through its affiliates make markets in equity securities listed on Nasdaq, OTC Bulletin Board, New York Stock Exchange, and American Stock Exchange, both in the United States and Europe. Knight also owns an asset management business for institutional investors and high net worth individuals through its Deephaven subsidiary. Knight is a major liquidity center for the Nasdaq and listed markets. We trade nearly all equity securities. On active days, Knight executes in excess of one million trades, with volume exceeding one billion shares. Knight's clients include more than 600 broker-dealers and 1000 institutional clients. Currently, Knight employs more than 800 people.

2 See, Letter of Knight Capital Group, Inc., dated January 24, 2006.

3 See, Exchange Act release No. 34-53024 (December 27, 2005).

New York, and the Pink Sheets LLC.[4] The proposed elimination of 6540(c) was initially driven by attempts to conform, at least in part, the rules of the OTCBB to those adopted under Regulation NMS. The NASD subsequently withdrew the proposal to restrict sub-penny quoting.

The recent filing by the NASD is substantially similar to its previous proposal, with the exception of the fact that the NASD has now proposed to limit the amount of access fees an ATS or ECN can charge a non-subscriber prior to it being required to display that access fee in its quotation (i.e., \$0.003/share for published quotations \$1.00 or greater, and less than 0.3% if the published quotation is less than \$1.00). In its recent filing, the NASD advanced two arguments in support of its proposal. First, if an ECN or ATS is required to display access fees in its published quotations this may result in two separately priced quotations for the same order (i.e., one which reflects the access fee in public markets, and one which does not on the ECN's internal, subscriber system). Second, the NASD stated that if an ECN is required to display access fees, then it may result in principal trades (as opposed to riskless principal) if the ECN is required to trade at one price with non-subscribers and another with subscribers. Neither reason offers a basis upon which to grant this proposal. Indeed, since the NASD proposal does not mandate a fee cap, an ECN or ATS is permitted to charge a fee higher than the proposed fee guidelines. If they do, then both of the premises upon which the NASD based its current rule filing will be effectively vitiated.

Importantly as well, we fail to see why the NASD needs to take any action at all. We agreed fully with the SEC decision to limit ECN fees in the promulgation of SEC Rule 610(c) as a means to eliminate excessive access fees in Nasdaq and listed securities. Since fees were not transparent in those markets, competitive market forces could not protect market participants from excessive fees. However, we submit that regulatory intervention is not necessary when fees can be controlled by competition. There is no market structure or investor need for the current proposal. Rather, if approved, the instant proposal will simply help to validate a business model, by granting a license for ECNs and ATSs to compete against other market participants on an unlevel playing field. We do not believe that the viability of a particular business model should be determined by regulatory fiat. An ECN or ATS is free to charge their customers, as are all broker-dealers. However, we strongly oppose any rule proposal that would permit an ECN or ATS to charge a fee to a non-subscriber for access to their quotation, but not permit all other market participants to charge that same ECN or ATS for similar access. It is simply unfair.

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4 See, Letter of Jerry O'Connell, Chairman, SIA Trading Committee, dated February 17, 2006; Letter of William Yancey, Chairman and John C. Giesea, President and CEO, Securities Trader Association, dated February 8, 2006; Letter of Michael Santucci, President, Kimberly Unger, Executive Director, and Stephen Nelson, Co-Chair of the Trading Issues Committee, the Securities Traders Association of New York, dated January 26, 2006; Letter of R. Cromwell Coulson, CEO, Pink Sheets LLC, dated January 24, 2006.

Undisplayed access fees in Nasdaq have been a major industry and market structure dilemma for many years.[5] Incorporating sub-penny pricing in Nasdaq would have been the only way to accomplish the display of access fees in that market. For good reason, Regulation NMS foreclosed that opportunity in Nasdaq and listed securities.

Additionally, if permitted to pass, this rule filing will undoubtedly result in far more locked/crossed markets – as certain market participants will seek to trade solely based upon an economic rebate differential that could be captured through an undisplayed access fee. When this happens, investors will receive a distorted view of the true NBBO along with the associated deceptive volume that could result from access fee trading.

In April, the ten highest volume OTCBB securities traded at prices $0.0009 or lower (that is, 9/100ths of one penny or lower per share).[6] Thus, in a marketplace that trades in sub-penny increments, it is critical to best execution routing decisions that access fees are incorporated in the displayed quotation. This will not only offer transparency, but will also allow competitive forces to drive fees to acceptable levels for investors and market participants. Failure to include access fees into published quotations -- particularly where the OTCBB and Pink Sheets allow for such quotation increments, is clearly a step backwards and will create a distortion of the true NBBO.

The NASD also indicated in its filing that there are concerns relating to compliance with NASD Rule 2320 and with trade reporting requirements. We believe that the concern raised by the NASD relating to maintaining the same quotation when quoting in more than one medium is easily addressed. First, an ECN or ATS is not required to charge an access fee. That is strictly a business decision. Secondly, since the publicly quoted market will properly reflect the true cost of the transaction to investors (i.e., inclusive of access fees), and since ECN and ATS subscribers know full well that it may be cheaper to transact business as a subscriber, there would be no confusion as to pricing. Finally, as for the issues raised relating to dual trade reporting, we believe that could be resolved easily through modification of the existing ECN trade reporting rules.

As an owner of one of the few remaining independent ECNs (Direct Edge ECN), we fully understand and support the critical role that ECNs and ATSs play in the marketplace. They provide deep liquidity, technological innovations, and vibrant competition – all of which are vital to the U.S. capital markets. We also commend the NASD and their efforts to enhance the OTCBB market. However, we reiterate our view that proper measures must be taken to insure full transparency and a level playing field for all market participants and investors.

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5 See Testimony before the Senate Banking Committee on "The Changing Face of Capital Markets and the Impact of ECNs" by the Honorable Arthur Levitt, Chairman of the Securities and Exchange Commission, dated October 27, 1999.

6 See, OTCBB.com for April 2007.

Knight

Thank you again for providing us with the opportunity to comment on this rule proposal. Knight would welcome the opportunity to discuss our comments with the Commission.

Sincerely yours,

Leonard J. Amoruso
General Counsel
Knight Capital Group, Inc.

Michael T. Corrao
Chief Compliance Officer
Knight Equity Markets, L.P.

cc: Chairman Christopher Cox
Commissioner Paul S. Atkins
Commissioner Roel C. Campos
Commissioner Kathleen L. Casey
Commissioner Annette L. Nazareth
Dr. Erik R. Sirri, Director, Division of Market Regulation
Robert L. D. Colby, Deputy Director, Division of Market Regulation
Mary L. Schapiro, NASD Chairman and CEO
Thomas R. Gira, Executive Vice-President and Deputy, NASD Market Regulation