July 9, 2010

Robert Cook
Director
Division of Trading and Markets
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549

Re: Market Maker Obligations

Dear Mr. Cook:

As you are well aware, the market events of May 6th, 2010 have raised important questions about the operation of our market structure. As has been noted by Commission Staff and others, one of the potential solutions to help prevent another May 6th type event is to improve the current rules around market maker obligations.

We believe that the Commission and the exchanges should address the role market makers should play in our equity and options markets. Historically, market maker rules were designed to require market makers to maintain two-sided markets to ensure that investors could buy or sell a security any time and at a competitive price. In return for the risks inherent in their obligations, market makers typically have received certain economic and market structure benefits. Over the years, as the market structure changed, market maker obligations have evolved into the current rule set, which on several exchanges impose no true affirmative quoting or trading requirements.

It is important to the health of our U.S. capital markets that the obligations and benefits for market makers are balanced. Given the events of May 6th, the disparate rules on the various exchanges, and the SEC definition of market making, now is an opportune, yet critical, time to update rules and enhance the required qualifications and obligations of market makers.

While there are important specific elements that must be considered when adopting any new market maker rules, including the appropriate economic and market structure benefits, as a policy matter we support rules that would impose stronger obligations on market makers. Attached is a document that outlines specific proposals for increasing the current market maker obligations that we hope can be used to establish a framework for new SEC or exchange rules.

While no set of market maker rules could have prevented May 6th, we believe the attached proposals represent meaningful reform that will make our markets better and more resilient, particularly in times of high volatility and price dislocation. Combined with other market structure changes, additional market maker obligations will significantly reduce the chance of another destabilizing event like the one that occurred on May 6th. We look forward to working with Commission staff and the exchanges to discuss ways to implement rule changes quickly and efficiently. Please do not hesitate to contact us to discuss the attached proposals.

Sincerely,

John A. McCarthy
General Counsel
GETCO, LLC

Christopher R. Concannon,
Partner
Virtu Financial, LLC

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

Cc: James Brigagliano
David Shillman
Heather Seidel

Proposal to Increase the Obligations of NMS Market Makers

Proposal: To address concerns about market maker obligations, including the use of stub quotes, raised following the events of May 6th, we offer the following proposal for heightened obligations for market makers:

1. Best Price Obligation
    a. Publish continuous, two-sided attributable or non-attributable quotations
    b. Based on the price and ADV of the stock, market makers should be required to quote "at the inside" at tier various levels; e.g., 5-10% of the time during market hours
    c. Based on the price and ADV of the stock, best price obligations should also have Minimum Size requirements (i.e., 200, 500, 1000 shares)

2. Depth Obligation
    a. Market makers should be required to provide 3-5 price levels below the Best Price Obligation
    b. The number of price levels should be based on specific stock factors (i.e., volume, stock price, etc.)
    c. Depth levels should also have minimum size requirements
    d. Depth levels should be within the circuit breaker levels to help buffer volatility prior to triggering circuit breakers

3. Maximum Quoted Spread Obligation -- The Best Price Obligation should be subject to a maximum quoted spread obligation. This will ensure the elimination of stub quotes.

4. Minimum Stock Requirement -- Market makers should be required to meet standards in a minimum number of stocks (e.g., 100 or more symbols).

5. Facilitate customer order-flow.

6. Higher Capital Requirements -- Market makers should face higher capital requirements. Due to the risk associated with increased market maker obligations, capital requirements for market makers should be based on their quoting obligations in addition to the existing position based capital requirement.

7. In order to qualify, a market maker would have to meet a subset of these obligations and have the ability to cure.