Written Statement of
Leonard J. Amoruso
Senior Managing Director and General Counsel
Knight Capital Group, Inc.

Submitted before the
CFTC-SEC Advisory Committee on Emerging Regulatory Issues

Panel Discussion
"The events of May 6 – views and observations regarding
liquidity, trading and the apparent breakdown of an orderly market."

Tuesday, June 22, 2010

Chairman Schapiro, Chairman Gensler, and Members of the Advisory Committee we thank you for the opportunity to submit a written statement in connection with this very important panel discussion regarding the events of May 6 and the related market structure issues.

1. Brief history of Knight

Knight Capital Group, Inc. ("Knight") opened for business in 1995.[1] Built on the idea that the self-directed retail investor would desire a better, faster and more reliable way to access the market, Knight began offering execution services to discount brokers. Today, Knight services some of the world's largest institutions and financial services firms, providing superior trade executions in a cost effective way for a wide spectrum of clients in multiple asset classes, including: equities (domestic and foreign securities), fixed income securities, listed derivatives and currencies. Knight, through its affiliates, makes markets in approximately 19,000 equity securities listed on the New York Stock Exchange ("NYSE"), NASDAQ, NYSE Amex, the OTC

[1] Knight is the parent company of Knight Equity Markets, L.P., Knight Capital Markets LLC, Knight Direct LLC, Knight BondPoint, Inc., Knight Libertas LLC, and Knight Clearing Services LLC. All are registered with the SEC and various self-regulatory organizations. Knight Capital Europe Limited is authorized and regulated by the Financial Services Authority. Knight Capital Asia Limited is authorized and regulated by the Securities and Futures Commission. Knight, through its affiliates, is a major liquidity center for the U.S. securities markets. We trade nearly all equity securities. Knight's clients include more than 3,500 broker-dealers and institutional clients. Currently, Knight employs more than 1,100 people worldwide. For more information, please visit: www.knight.com.

Bulletin Board ("OTCBB") and Pink Sheets. On active days, Knight executes in excess of five million trades. On May 6, 2010, Knight executed:[2]

- 9.2 million trades
- 2.9 billion shares
- $69 billion in dollar value traded

The majority of the trades we execute are on behalf of retail investors. Although retail customers do not come to us directly, their brokers do. We count among our clients some of the largest retail brokerage firms in the U.S. In addition, we service some of the largest financial institutions in the country. These institutional clients send us orders on behalf of mutual funds and pension plans, whose ultimate clients are, of course, small investors.

Knight has spent the last 15 years building its technology infrastructure so that it can process millions of trades a day on behalf of the retail investor in a fast, reliable and cost effective manner, while providing superior execution quality and service. We have the capacity to process approximately 20 million trades per day. We have connectivity to nearly every source of liquidity in the equities market, and our trade response times are measured in milliseconds. Knight's years of research and development, technology platform enhancements and connectivity to liquidity wherever it resides are all brought to bear with a single purpose in mind: securing best execution on behalf of our customers (and, in turn, their customer – the retail investor).

2. May 6, 2010

The market gyrations of May 6 will likely be the subject of debate for weeks and years to come. Pinpointing a single cause is likely an act of futility. Some have pointed to high-frequency trading, the use of market and stop orders by investors, alleged "fat-finger" trades,

[2] Excludes OTCBB and Pink Sheets volume.

and/or the fact that some markets slowed down – thereby limiting them as a source of liquidity. Based on our observations, May 6 was a confluence of events, including a wide array of issues spanning the geopolitical events in Europe to the withdrawal of executable quotes by exchanges. Further, to place May 6 in the proper perspective, we also need to consider the days, weeks and months that preceded it.

The S&P 500 Index (S&P 500) was up more than 75% from March 2009 through May 3, 2010. During the week of May 3, a negative tone began to pervade the market, and what appeared to be a correction in the bull market was underway. On May 4, the S&P 500 slipped 2.5%, and the market began to show signs of pressure. On May 5, the S&P 500 closed slightly down at 1165. On May 6, market indices were down approximately 3.5% just before 2:30 pm, and market participants appeared to be removing risk from their portfolios. Waves of sellers came in as the market continued to slide downward. Fear begets fear, and by late afternoon more sellers came in and the market swooned. With liquidity quickly drying up, certain stocks traded down to "stub" quotes.

With such a rapid downward movement, many participants appeared too shocked to react. Questions began to circulate – was there a terror attack? Had Greece defaulted? Had something else catastrophic occurred? Importantly, with no alarming news forthcoming, the market quickly bounced back nearly 6% from the intra-day lows.

Our electronic trading group reported that prior to 2:00 pm market indicators were pointing toward stress in the marketplace (e.g., a number of preferred equities were being driven down and closed-end funds were trading at large discounts to NAV).

At that point, reports from many corners of the street indicated that market participants were very confused. The marketplace being a robust network of technology, many participants were not sure what caused the rapid decline and were questioning the information they were

processing. For example, were the prices from the SIP (Securities Information Processor) correct? Were there other market data delays or issues causing a distortion of pricing? Or, worse yet, was there some catastrophic news that had not yet been widely disseminated to the marketplace?

Many trading firms were also concerned that their positions might not be accurate. As a result, many firms immediately re-evaluated their electronic trading strategies. At Knight, we are fortunate to employ a hybrid model that combines human and electronic trading. When we are not certain that our computer models are effectively responding to current market conditions, our human traders try to make sense of the situation and take over a large portion of trading. As our human traders dealt with the onslaught of orders, we continued to investigate for root cause(s) in our systems and the marketplace overall – i.e., was our market data (and then the Street's) accurate? Were our positions correct? Not knowing this information contributed to the market-wide confusion noted above.

We found no material technology issues. From an operational point of view the market performed exceedingly well. Although market data spiked, it did not crest to the levels one would have expected with these volumes. Indeed, our technology team advised that we have seen higher peaks both before and after May 6.

In general, market centers also performed well. We reviewed response times from NASDAQ, NYSE and other market centers during the time period from 2:40 - 3:00 pm. Based on our assessment, things seemed fairly normal with no material delays or outages.

From our perspective, we did not see any evidence that “high frequency” traders caused or catalyzed the problem. It is possible that automated market makers collectively were losing a lot of money prior to the event itself, which caused some of them to widen their markets. Thus,

it appears that the impact was more attributable to the fact that liquidity temporarily dried-up, as opposed to being caused by "high frequency" trading itself.

This still begs the question: why was it such a bad day to begin with, and why did the market as a whole drop during this event? This is where we think a broader look at the days and months prior to May 6 are worthy of evaluation.

As we noted previously, there were a number of macroeconomic issues that may have stressed liquidity providers, including: the riots being broadcast from the streets of Greece; concerns relating to the potential knock-on effects throughout Europe; and streaming videos of oil being spewed into the Gulf of Mexico. The news that day was being transmitted broadly and swiftly, and most of it was negative. Consequently, it was no surprise that buyers were scarce for most of that Thursday. The sheer magnitude of information being disseminated to the market day-in and day-out, and the inability to intelligently process all of that information fast enough, undoubtedly played some role in the May 6 market gyrations.

As noted above, the market had been weak in the days before May 6. Thursday, May 6 also began weak, and most traders started to get the sense that something was afoot. Before 2:00 pm, the market was down 3.5%, investors appeared to be shedding risk and the markets appeared thin. When the S&P 500 traded at 1120, stop orders were triggered and the market traded lower. When the market did not promptly bounce back, buyers became sellers and the market traded down another 5% - 6%. During this period, the NYSE triggered its liquidity refreshment points (LRPs) in a number of securities. Orders were then routed away from the NYSE to other destinations where liquidity in certain stocks was thinner and prices wider.

Uncertainty around how the clearly erroneous trade rules would be utilized was likely another contributing factor to the downward spike. Some liquidity providers may have delayed re-entering the market for fear that if they bought during the downslide they could be left short in

a rising market if the exchanges indiscriminately cancelled trades. For example, if a liquidity provider purchased 50,000 shares of Procter & Gamble down 20% and sold it before the end of the trading day, there was a genuine concern that if the purchase was cancelled under the erroneous trade rules, they could be left short 50,000 shares in a rising market.

Consequently, what we do know about the events of May 6, as well as the similar events of the last quarter century, is that equity markets, and all markets for that matter, will occasionally be thrown into brief periods of irrationality if macro events in the world become quite negative. Macro events also drive markets upward, as we witnessed on May 10 with the robust rally following the passage of the European rescue plan.

As bad as May 6 was, it is noteworthy that the market largely healed itself very quickly. This was due, in large part, because the markets remained open.

Conclusion

The events of May 6 deserve intense forensic analysis to understand the confluence of macroeconomic and market structure issues that created the illiquidity pocket that unfolded so rapidly that afternoon. All markets need logical, clear rules to follow to ensure fair trading. We believe the changes advanced recently by the SEC in the proposed circuit breaker rules, which will be applied consistently across all market centers, will introduce enough time and discipline into the trading process to allow the markets to avoid some of the tumult witnessed on May 6.

We need to keep in mind that large market movements will still occasionally occur because that is what happens in open, accessible markets where investors are allowed to express their views through the buying and selling of stocks. As we noted in our recent comment letter relating to the proposed circuit breakers:

> "… [we do not believe that] volatility should be regulated or mandated out of existence, or that we should introduce safeguards

> to protect market participants from periods of high volatility. Volatility can be an unpleasant fact, but it is a byproduct of the dynamism of our capital markets and reflects periods of strongly differing views on valuation and the state of companies."

As study after study has shown, the U.S. equity markets have never been more open, fair, or efficient. Let's make these important adjustments and let the markets continue delivering exceptional executions for all investors.

Knight appreciates the constructive role this Advisory Committee will play in the identification of emerging regulatory issues. Your efforts will help to ensure that the U.S. capital markets remain competitive and innovative, thus benefiting all investors. We echo the views of the SEC Chairman and Commissioners that important market structure issues must be driven by the careful analysis of empirical data and not by emotion or politics. Thus, we respectfully urge the Advisory Committee to look closely at the statistical evidence of how efficiently the equities markets currently operate; to assess how much value the current system brings to all investors; and to ensure that any proposed rules withstand a rigorous cost-benefit analysis.

Thank you for the opportunity to contribute to this important dialogue.