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BY ELECTRONIC MAIL

To: Mr. Werner Bijkerk
International Organization of Securities Commissions (IOSCO)
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Investment Technology Group response to IOSCO consultation on Regulatory Issues Raised by the Impact of Technological Changes on Market Integrity and Efficiency (the "IOSCO Consultation")

Investment Technology Group ("ITG") welcomes the opportunity to comment on the IOSCO Consultation. ITG is supportive of the high level objectives expressed in the IOSCO Consultation to ensure stability in the financial markets through fostering a level playing field and regulating market conduct. However, ITG believes that additional empirical and theoretical analysis is required to appropriately calibrate the proposals to avoid any unintended consequence.

ITG is a specialised brokerage and financial technology firm that partners with asset managers globally to improve performance throughout the investment process. ITG's client base comprises institutional buy-side investors and broker-dealers. ITG is considered a leader in electronic trading since launching the POSIT® crossing network in the United States in 1987. POSIT® was the first anonymous electronic order matching system for institutional investors. POSIT conducts crosses of unpriced orders from institutional investors and brokers on a confidential (i.e. non-displayed) and anonymous basis at the midpoint of the current best bid and offer on the reference exchange or other prices derived thereof. In addition, POSIT conducts a VWAP cross that matches orders at the day's volume weighted average price in the security on the reference exchange. ITG's integrated approach includes a range of products from portfolio management and pre-trade analytics to trade execution and post-trade evaluation. Asset managers rely on ITG's independence, experience, and agility to help mitigate risk, improve performance and navigate increasingly complex markets.

We have focused our comments on the aspects of the IOSCO Consultation where we have relevant input, queries or concerns. The IOSCO Consultation raises a number of very important questions for the future of the financial markets and we feel that it is appropriate for us to concentrate on the issues that are most important for our clients and for the area of the markets in which we participate.

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We are encouraged by the IOSCO Consultation's focus on the impact of technological changes in the lit markets. Despite much debate on the implied fairness of certain new and highly automated technologies that increase the speed of order execution, it is the capability of assimilating better and larger quantities of information faster and not always the speed of trading that is the most defining effect of this new technological landscape. In markets that permit free movement of capital and ideas, it is difficult to justify throttling the speed at which information, shaping those ideas, is assimilated or digested. In addition, highly automated strategies now play an important role in the marketplace in assisting participants that operate those strategies to increase liquidity, reduce bid-offer spreads, and enable market participants to obtain best execution.

Nonetheless, we recognize that technological changes (in particular) in the last few years may have created an asymmetric relationship between those lit market participants (some of which may be unregulated) that rapidly acquired new trading technologies and other participants that have business models that do not encourage the integration of these new technologies into their trading strategies.

Behaviour that could be classified as market abuse by regulators or unequal access to market data are two undesirable potential developments that may have accompanied the rise of highly automated technologies. First, some suggest that certain highly automated strategies could be displaying behaviour that is signaling market abuse. In the most recent European Securities and Markets Authority's ("ESMA") consultation[1], ESMA's work focuses on orders which give false or misleading signals as to the supply of, or demand for, or price of, financial instruments. In particular, ESMA refers to the following forms of potential market abuse behaviour that may arise, or might become more widespread, due to certain high speed trading strategies: pinging of orders, quote stuffing, momentum ignition and layering and spoofing.

We are not opposed to the presence of high speed automated trading strategies in the marketplace. However, we are cognizant of the fact that some market participants that employ such strategies could be engaging in market abuse or other inappropriate conduct. In that regard, we encourage regulators to examine the industry for this type of activity and we support efforts to provide regulators with the necessary tools to identify and discipline market participants engaging in market manipulation and other illegal conduct.

Second, some believe that an asymmetric access to lit venue market data may have also arisen, thus, unfairly advantaging some of the highly automated trading market participants over other investors. This is an area where IOSCO could helpfully issue further guidance on what controls should exist at the vendor level for the fair distribution of lit venue market data.

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[1] ESMA consultation of 21 July, 2011 on the Guidelines on systems and controls in a highly automated trading environment for trading platforms, investment firms and competent authorities.

We are also interested in IOSCO's proposal to introduce charges or fees on messages, cancellations or high order-to-trade ratios. We believe that the exchanges are in the best position to develop and implement a system for the collection of such charges and/or fees. Specifically, the exchanges have the most comprehensive data sets to conduct the necessary analysis for determining the methodology and process for levying charges or fees based on message traffic. We realize that it would be extremely difficult for an exchange to act independently on this issue given the potential widespread market effects. Accordingly, we recommend that the exchanges engage in a coordinated effort to develop an effective, reasonable, and fair system for the imposition of such charges or fees.

Market data capacity is an issue of great complexity that must be addressed soon, as unbounded growth of message traffic is imposing tremendous costs on the industry and draining valuable resources of market participants. If this issue is not effectively resolved by the exchanges and other members of the industry in a timely manner, regulators may eventually issue more prescriptive measures that could inadvertently create market inefficiencies and diminish execution quality by increasing transaction costs.

We concur with IOSCO that the empirical evidence on the impact of High Frequency Trading on markets is still scarce due both to a limited availability of appropriate datasets and to the empirical and theoretical difficulties raised by the exercise. For this reason, we would urge IOSCO to consider a new and robust impact study on the effect of any proposed charge or fee on order executions that reach certain thresholds to confirm that any proposed charge or fee would only impose additional regulatory burdens on the market participants that are unfairly advantaged. We believe that any such impact study should consider (as a hypothesis) whether a dynamic and name-specific charge threshold trigger that would be determined by each relevant lit trading venue is more likely to achieve the desired result than a static and monolithic charge threshold trigger across all markets. We are concerned that a monolithic charge threshold trigger across all markets would impact all market participants whether or not they are found to be creating any unnecessary strain on the market. Moreover, we would welcome IOSCO considering an impact study to establish if any additional risk controls should be introduced.

Both impact studies (i.e. whether to introduce charge threshold triggers or additional risk controls) should consider an exhaustive analysis of the following parameters:

a. ratio of executions to cancellations;

b. average order size and average execution size based on visible orders on the limit order book;

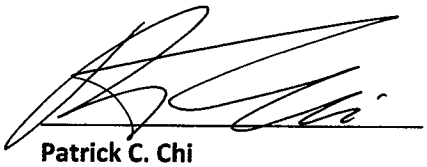
c. number of entries on the limit order book on average;

d. number of cancellations a day; and

e. evidence of market abuse (i.e. gaming of orders, quote stuffing, momentum ignition and layering and spoofing).

We look forward to a continuing and open dialogue with you on these issues.

Yours sincerely,



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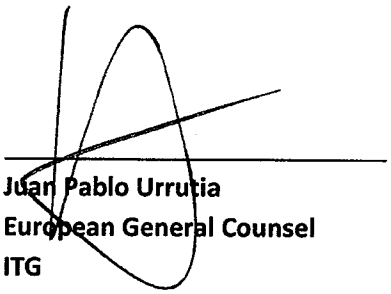

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