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August 12, 2011

Mr. Werner Bijkerk
International Organization of Securities Commissions
Calle Oquendo 12
28006 Madrid
Spain

GETCO

Re: Public Comment on Consultation Report: Regulatory Issues Raised by the Impact of Technological Changes on Market Integrity and Efficiency

Dear Mr. Bijkerk:

GETCO appreciates the opportunity to comment on IOSCO's Consultation Report: *Regulatory Issues Raised by the Impact of Technological Changes on Market Integrity and Efficiency*. IOSCO has a long history of providing leadership on the development and promotion of international standards of regulation and oversight of securities markets.

GETCO believes that well-regulated markets provide stability, promote competition, and create efficiencies – all of which contribute to investor confidence. For this reason, the firm has actively engaged in the important discussions around financial services regulation. IOSCO's final report will be a key contribution to these discussions as national policymakers consider changes to regulatory requirements in their own countries. Accordingly, any recommendations by IOSCO should be designed to address those risks identified through analysis, not based on opinion. Moreover, GETCO urges IOSCO to recognize that any initiatives designed to introduce inefficiencies to the market or that reduce competition would impose costs on investors by reducing the quality of public markets. Less efficient public markets will encourage off-exchange trading, including internalization, impairing price discovery on public markets.

GETCO is a leading electronic trading and technology firm providing liquidity on over 50 markets in North and South America, Europe, and Asia. From offices in Chicago, New York, London, and Singapore, the firm transacts business across four asset classes – equities, fixed income, currencies and commodities. GETCO's primary trading strategy is market making.

GETCO supports the comment letter submitted by the Futures Industry Association (FIA). This letter provides the perspective of a global, electronic market maker and supplements the views in the letter from the FIA Principal Trading Group and European Principal Traders Association.

DISCUSSION

Technology has brought enormous benefits to the financial markets. Investors have greater access to more transparent, more efficient, and lower cost markets than ever before. The preponderance of academic literature supports this conclusion.[1] However, equally important is regulators' need for new tools to regulate and oversee those markets as they change. For this reason, GETCO has been supportive of initiatives by regulators around the world to adapt their rules to modern, electronic markets.

GETCO believes that the following principles form the basis for maintaining the integrity and efficiency of markets today:

- Surveillance Tools. Technology should be leveraged to equip regulators with tools to effectively monitor market activity.

- Market Access. Regulation of market access is an important tool in limiting risk to the financial markets and all orders should be subjected to effective pre-trade financial and regulatory risk management controls and supervisory procedures.

- Transparency. Timely and accurate pre- and post-trade information is essential for regulators and market participants to effectively analyze trading activity.

- Volatility Controls. Trading pauses within appropriate pre-set limits would allow market participants to digest information when a security's price moves significantly over a short period of time. Such trading pauses must be appropriate for a particular market's structure.

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[1] In addition to the studies cited by IOSCO in its Report, the Futures Industry Association Principal Trading Group and European Principal Traders Association references in their comment letter additional studies for IOSCO's consideration.

- Liquidity. Stronger market maker obligations should be encouraged through incentives or regulations and should be balanced with any benefits for market makers.

Impact of Technology on the Fairness and Integrity of Markets

Technology is used by today's market participants to implement a wide range of trading strategies. GETCO's primary trading strategy is market making and technology enhances our ability to manage risk, synthesize large quantities of information and maintain liquid, two-sided markets for investors in over 3,000 symbols on average each day.

Market makers have existed in markets for hundreds of years, and today's electronic market makers use technology to create efficiencies and reduce trading costs for investors. Natural buyers and sellers may not enter the market place at the same time. Market makers bridge this time gap by providing continuous, two-sided quotations, thus allowing natural buyers and sellers to immediately trade with the market makers' quotes. In this way, market makers provide an important service to other market participants.

GETCO

GETCO has invested in technology to better manage our risks, which allows the firm to make tighter and deeper markets. The improvements to market quality when market makers like GETCO can offer better prices, provide measurable benefits to investors. Numerous studies have assessed the improvements to market quality over the last decade.[2] For this reason, we are troubled by IOSCO's suggestion that certain firms' "superior trading capabilities result in an unfair advantage over other market participants, such that the overall fairness and integrity of the market are put at risk."[3] This statement assumes that only the firm that invested in technology benefits from that technology and fails to recognize the positive impact on market quality, which benefits all participants.

Events in the US Market on May 6, 2010

On May 6, 2010, GETCO kept trading. As noted above, we have invested in technology and scale over the past 10 plus years so that in moments of market stress we can accurately access our risk and continue trading. During the market events of May 6th, our investment in technology enabled us to continue to provide liquidity, which allowed other market participants also to

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[2] See academic literature review at www.futuresindustry.org/ptg/downloads/HFTLiteratureReviewJune2011060811FINAL.PDF.

[3] See IOSCO Report, at 27.

continue trading. For this reason we disagree with the suggestion by an academic referenced by IOSCO in its report that the level of investments in technology may not be "socially optimal."[4]

GETCO agrees with IOSCO's recognition that "HFT is employed in many different strategies, each potentially having different impacts on the markets."[5] Nevertheless, IOSCO also expressed concern that "[t]he events surrounding the May 6 flash crash suggest that HFT firms . . . rapidly withdrew from the markets as they began to move." Our continued participation in the market on May 6 highlights the importance that policy makers not generalize based on the tools used by market participants.

Market Maker Obligations (Response to Question 5)

GETCO

GETCTO believes that regulators should address the role that market makers play in modern markets, including obligations to provide useful liquidity. Accordingly, we support stronger rules for liquidity provision.[6]

Historically, market makers were physically present on a trading floor. Because the trading floor was the center of price discovery, market makers had an informational advantage over other market participants. In return for these advantages, market makers had affirmative obligations to provide liquidity and maintain fair and orderly markets. Overtime, as markets have become more electronic, traditional market making programs have become less prevalent, and very few trading platforms in Europe offer liquidity provision schemes in liquid securities.

IOSCO asks whether market maker schemes offered by trading venues should be subject to mandatory minimum criteria or determined solely by the trading venue.[7] GETCO believes there should be a distinction between market making as a regulatory term in which certain benefits may stem from being designated a market maker, and liquidity provision schemes operated by exchanges, which are often designed to encourage liquidity in a new contract or illiquid security and are primarily operated for commercial reasons.

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4 See IOSCO Report, at note 40.

5 See IOSCO Report, at 24.

6 To help prevent another market event in the US such as occurred on May 6, 2010, GETCO, together with Virtu Financial and Knight Capital Group, recommended that the US Securities and Exchange Commission (SEC) consider improvements to the current obligations of market makers. See Letter to Robert Cook, Director, Division of Trading and Markets, SEC (July 9, 2010).

7 See IOSCO Report, at 41 (Q5).

CONCLUSION

GETCO appreciates the opportunity to submit these comments. Please do not hesitate to contact us at (312) 931-2200 if you have any questions regarding any of the comments provided in this letter.

Sincerely,

Elizabeth K. King
Head of Government & Regulatory Affairs

GETCO