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Submitted electronically
Elizabeth M. Murphy
Secretary
US Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Release No. 34-64547; File No. 4-631
Joint Industry Plan: Notice of Filing of a National Market System Plan to Address Extraordinary Market Volatility

Dear Ms. Murphy:

The Security Traders Association of New York, Inc.[1] ("STANY") respectfully submits this letter in response to the Securities and Exchange Commission's (the "SEC" or the "Commission") request for comments on Release No. 34-64547; File No. 4-631- The Joint Industry Plan to Address Extraordinary Market Volatility (the "Plan") submitted to the Commission pursuant to Rule 608 of Regulation NMS under the Securities Exchange Act of 1934 (the "Exchange Act") by various exchanges and self-regulatory organizations (the "Participants").

STANY is pleased to see the Participants working together to propose trading rules designed to address liquidity dislocation. Since the events of May 6, 2010 ("May 6th") the Commission and the industry have proposed and implemented a number of stabilizing measures aimed at preventing a repeat of that day's "flash crash." Of the numerous rules proposed and measures discussed, the Plan, with its limit up-limit down trading bands, has the potential to be most effective in drawing liquidity to the markets and stabilizing extraordinarily rapid price movements.

We believe that the approach contemplated by the Plan is preferable to measures aimed at one segment of the market or one type of market order; i.e. rules addressing trading in dark pools, rules dealing with market maker obligations, or with high frequency traders.

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[1] STANY is the voice of the trader in the New York metropolitan area and represents approximately 1,000 individuals who are engaged in the trading of securities. As such, we are uniquely qualified to discuss proposed rules and regulations affecting trading. STANY is the largest affiliate of the Security Traders Association ("STA"), a multinational professional association that is committed to being a leading advocate of policies and programs that foster investor trust, professional ethics and marketplace integrity and that support education of market participants, capital formation and marketplace innovation.

Neither STANY nor STA, represent a single business or business model, but rather provide a forum for traders representing institutions, broker-dealers, ATSs, and trading centers to share their unique perspectives on issues facing the securities markets. Our members work together to promote their shared interest in efficient, liquid markets, and their concern for investor protection. We believe that strong and efficient markets require an appropriate balance between effective regulation and innovation and competition.

Although volatility, such as that seen on May 6th has become a concern for the Commission, the industry, and the public, some measure of volatility is appropriate and normal in well-functioning markets. To the extent that pricing is a result of differing valuations of a company or different projections about a company, industry or the economy, volatility is often a rational response and an indication of pricing mechanisms at work in the free market. Limit up-limit down would allow markets to trade and price discovery to continue without undue regulatory intervention, but would add safeguards for situations of extreme volatility.

We believe that limit up-limit down bands contemplated by the Plan would have decided advantages over the current single stock circuit breakers implemented by the Commission in response to the trading activity on May 6th. The existing circuit breakers have proven to be unnecessarily restrictive, completely halting trading in a security, even after contra-side liquidity has returned to the market. "This has been particularly problematic in a number of situations in which a single erroneous trade triggered the pause. Similarly, pauses do not fully address the impact of an erroneous trade because they do not prevent the execution and reporting of that initial triggering trade, allowing potential trade prices to be reported considerably below or above the price that triggered the pause." [2]

By contrast the limit up-limit down Plan, where trading continues but executions may occur only within an acceptable pre-set range, would allow for continuous trading and the near elimination of clearly erroneous trade executions. Trading can continue within the confines of the bands, thus permitting price discovery to continue and the market could exit the Limit State when contra-side liquidity appears at a price above the limit price. Moreover, limit up-limit down functionality would minimize the costs associated with interrupting continuous trading and denying market participants a continuous flow of market data during periods of fast moving price changes.

Although the recently adopted Clearly Erroneous Rule[3] pilot has given market participants some measure of comfort with regard to executions which are, as the name implies -- clearly erroneous-- the rule is cumbersome and less than perfect. Risk management is more difficult for traders who make trades which are subsequently cancelled. Cancelled trades can result in unauthorized short positions, short positions in hard to borrow securities or both. It would be preferable to avoid the execution of a "clearly erroneous" trade than to bust the trade subsequent to execution. Limit up-limit down will not completely eliminate the execution of clearly erroneous trades; however, the number of erroneous trades and instances of trades triggering Rule 201 should be substantially reduced.

As clearly erroneous trades may still occur, we question how these trades will be handled for purposes of calculation of a security's Reference Price. As unwinding a clearly erroneous trade involves a process that may take some time, we suggest that trades that are executed outside the then existing price bands not be included in the calculation of the Reference Price.

It should be noted that limit up-limit down bands would not prevent stock prices rising or falling in response to news or market sentiment, but they would slow extraordinarily rapid price changes and give market participants an opportunity to respond to liquidity dislocations. Stock could still "lose" or "gain" a significant percentage of their value during the course of a trading day without triggering a Limit State, pause or halt. Limit up-limit down bands should; however, slow things down so that it is more likely than not that the price of a stock will stop declining (or rising) when it reaches a value that makes sense.

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[2] Recommendations Regarding Regulatory Responses to the Market Events of May 6, 2010 Summary Report of the Joint CFTC-SEC Advisory Committee on Emerging Regulatory Issues File No. 265-26 at p. 4.

[3] It should be noted that the current Clearly Erroneous pilot does not include clearly erroneous order handling requirements for the options market.

While limit up-limit down bands have advantages over the current single stock circuit breakers, we cannot endorse the Plan without at least mentioning some concerns and questions about the Plan as proposed.

Requirements to entire a Limit State.

The proposed Plan provides that trading for an NMS stock shall enter a "Limit State", if the National Best Offer **equals** the Lower Limit Band and does not cross the National Best Bid, or the National Best Bid **equals** the Upper Limit Band and does not cross the National Best Offer (*emphasis added*)[4]. As proposed a Limit State is entered when the National Best Bid or Best Offer is equal to the band levels, but if bids or offers are entered above or below the relevant Limit Band, those bids or offers will be identified as non-executable under the Plan.

We understand that some trading centers intend to re-price non-executable orders to the band price. Nevertheless, inconsistencies that could result from this method of calculation are likely to cause confusion and could dis-incent investors from entering orders at times when liquidity is most needed. The Participants and Commission should review the methodology for entering a Limit State and consider an alternative such as substituting the language "equals" with "is outside" in the Plan.

Impact of the Limit up-limit down Plan on Trading in Options and other Related Derivatives.

Options traders are worried about the impact that a Limit State in an equity security would have on trading of options in that security. It is anticipated that option prices will become more volatile, option spreads could widen and the quality of customer order executions may suffer when the underlying equity is in a Limit State. We suggest that the Commission analyze the impact that the limit up-limit down has on the options market during the Phase I and II of the pilot. Additionally, options traders have expressed concerns regarding several key option market attributes discussed below.

Many options traders feel the 15 second duration of the Limit State contemplated by the Plan is too long in light of the potential harm that could occur in the options market because during a Limit State high delta options can become proxies for inaccessible underlying stocks. Option market participants hedge option transactions in the underlying equity markets, therefore, how participants manage risk during a Limit State needs to be further considered, especially in consideration with printing contingent trades.

Unfortunately, option markets do not have consistent erroneous order handling rules. Therefore, it remains to be seen how the options markets will respond to the limit up-limit down bands in the equities markets. It is possible that some exchanges will reject ALL option market orders while others choose to only reject those orders on the same side of the market that caused the Limit State. Although conceptually an exchange-ban limited to market order call sales and market order put purchases in a free falling stock entering the downside of a limit band would yield desirable results as it relates to avoiding unfavorable fills for customers, it has been noted that some firms sending orders to the markets may have problems should exchanges reject ANY market orders

Questions also exist as to how options market makers will price options when the underlying security is in a Limit State. As proposed, once an NMS stock enters a Limit State the Processor will cease calculating and disseminating updated Reference Prices and Price Bands for that stock until either trading exits the Limit State or resumes with a reopening auction as prescribed by the Plan. Since the Processor will stop calculating and updating reference prices, it should be noted that there may be unintended consequences to options which are derivatively priced based on the underlying equity.

[4] Securities Exchange Act Release No. 64547 (May 25, 2011), 76 FR 31647 (June 1, 2011) at 31652

Option participants on the majority of the nine option exchanges have market maker obligations, which also may be impacted by the limit up-limit down Plan. Many option traders would be willing to add liquidity to the battle-tested option markets at such times of extreme market volatility but have warned that permitting exchanges to enforce normal market maker obligations and minimum quoting widths during Limit States would have long-term detrimental effects on liquidity in the options market.

Additionally, we urge the Commission to analyze how held orders are handled during Limit State to ascertain if there is any negative impact on option market participants that send market orders and held orders under those conditions.

Analysis of the impact on, and response to, the limit up-limit down Plan in the options markets during the pilot will be needed. STANY urges the Commission to engage in this analysis and consider the data as it evaluates the efficacy and advisability of the Plan, recognizing that it may be necessary to amend and/or implement rules in the options markets in response to limit up-limit down. Furthermore, and perhaps most importantly, STANY encourages the Participants and the Commission to achieve uniformity across all option exchanges in order to prevent regulatory arbitrage which will be the inevitable outcome in the absence of consistent rules.

The Interplay of Limit Up-Limit Down with other Trading Rules.

In addition to our concern for the way in which Limit up-limit down will affect non-equity asset classes, STANY is concerned with how the limit up-limit down Plan will work with existing rules such as the Clearly Erroneous pilot and Reg. SHO. Certainly the events of May 6th made clear that linkages between markets and coordinated halting mechanisms are important to the maintenance of orderly markets, especially during periods of extraordinary volatility and liquidity dislocation. We are concerned about the potential unintended consequence if there is not at least some measure of harmonization of existing rules. For example, as the rules are currently fashioned, there is a fear that limit up-limit down and the Clearly Erroneous pilot rules will create a "no bust zone" that may not accurately address clearly erroneous trades.

Likewise, we have questions about how the limit up-limit down functionality will work with other currently existing trading restrictions – the NYSE Liquidity Replenishment Points ("LRP"), NADASQ's Volatility Guards, Reg. SHO and market-wide circuit breakers. The simultaneous triggering of two or more of these speed bumps during times of heightened market volatility could cause confusion and uncertainty unless there is a scheme in place for handing multiple triggers.

Notwithstanding this potential confusion, limit up-limit down bands are likely to do more good than harm and as such should be implemented on a pilot basis as contemplated by the Plan. Subsequently, we suggest that the Commission and the Participants work together to study the effects of their unique volatility guards and their interaction with limit up-limit down bands. The Commission should also review both the Clearly Erroneous pilot and Rule 201 of Reg. SHO to determine whether and how to harmonize those rules with the parameters of the Plan.

The Changing Role of Single Plan Processors and their Capacity to Meet that Role.

The Plan will place new burdens and responsibilities upon single plan processors ("Processors") who would be responsible for calculating and disseminating to the public a Lower and Upper Price Band for NMS stocks for which they currently consolidate information pursuant to Rule 603(b) of Reg. NMS. The Plan Participants agree that Processors will be in the best position to calculate Pro Forma Reference Prices and apply and disseminate Lower and Upper Price Band information. While we do not dispute this, we question whether the current market data capacities of the Processors are sufficient to effectively handle these new responsibilities. This will be the first time that Processors will be generating information, as opposed to simply passing information through.

Our members have expressed concerns about whether reference prices and price band information will be fairly and effectively communicated to all market participants. The Plan specifically provides that "the Processor for each NMS stock would calculate and disseminate to the public a Lower Price Band and an Upper Price band during regular trading hours." With new reference prices being calculated on a continuous basis and with a requirement that new reference prices be disseminated with each 1% move in the price of a stock (except that each new reference price must remain in effect for at least 30 seconds) it remains to be seen whether this information can be fairly and effectively disseminated.

While the Plan addresses how Limit State Quotation information will be disseminated, it does not address how, and to whom, reference prices and price band information will be furnished or how the Processors will make this information available to the public as required by the Plan. We believe that the dissemination of this information should be in real time and should be made available to all market participants.

STANY requests that the Processors provide clarity as to how this information will be disseminated. We also suggest that vendors and market participants be engaged in the process prior to implementation of Phase I so that all parties involved can program and test their systems to ensure effective dissemination of reference prices and band information once the pilot goes live.

Participants' Ability to "Opt Out" with Commission Approval.

If one or more Participant is able to opt out of the Plan, we believe that the effectiveness of the entire Plan will be seriously jeopardized. The Plan can only be effective if there is a consistent approach across all trading venues. If Participants opt out or design their own plans, the potential for operational disruptions, confusion among investors and gaming would be counter-productive to the objective of increased investor confidence in the markers. The confusion caused by different halts and/or pauses across markets will likely do nothing to endear investors to the markets and could have the effect of driving liquidity from the markets when needed most.

The Operating Committee and Amendments to the Plan.

STANY understands the desire for some measure of flexibility with the specifics of the Plan. Therefore, although we generally advocate that rule changes be made only after notice and comment, we do not oppose those provisions of the Plan that permit Participants by unanimous vote to make non-material amendments to the Plan without public comment. However, material amendments to the plan should be presented to the Commission for approval prior to implementation. We likewise agree that amendments with less than unanimous approval of the Participants should be submitted to the SEC for approval and should be subject to Rule 608 of Regulation NMS.

To the extent that the Participants consider implementing any changes to the Plan, STANY respectfully recommends that the Participants exercise caution especially if the changes contemplated are in response to extraordinary market events. In such cases, the Participants should ensure that any such changes are the result of meaningful analysis and evaluation of the cause(s) of any such event and determine the most appropriate course of action to specifically address those causes.

We believe that the proposed procedures relating to functioning of the Operating Committee appropriately balance the protection of the Plan Participants and the interests of the operation of the Plan, but suggest that the interests of the overall market would better be served if the Operating Committee included broader industry representation. We suggest that the Operating Committee be expanded from its current size, of one representative from each of the 14 plan Participants, through the inclusion of industry representatives who are not parties to the Plan. As the plan is applicable to all trading centers in NMS stocks, including both those operated be the Participants and those operated by members of the Participants, we believe that, at the very least, members of the Participants should have representation on the Operating Committee. We urge the Commission to work with the Participants on a plan to include a cross section on non-party industry representation on the Operating Committee.

The Commission has sought specific comments on numerous details of the Plan. As the limit up-limit down concept will be new to the equities markets, it remains to be seen just how effective it will be and whether in practice it will give rise to any unintended negative consequences. At this stage, it would be foolhardy for us to speculate on the finer points of the Plan such as the optimal length of the Limit State and the ideal band parameters.

As the Commission aptly notes, it is difficult to determine the optimal Limit State -- one that is long enough to reasonably attract additional available liquidity without recourse to a trading pause, yet is short enough to reasonably limit any market uncertainty that might accompany a Limit State. Some of our members believe that the 15 second Limit State is too long, others that it is not long enough. Shortening the time frame may make it extremely difficult to attract liquidity and the Plan may effectively be analogous to the single stock circuit breakers currently in effect. Making the plan longer would increase the level of uncertainty, and in doing so, may drive liquidity from the markets. It is a delicate balance and one which can only be effectively determined in practice.

Likewise, some STANY members believe that the bands should be consistent for both the Tier 1 and Tier 2 NMS stocks priced above $1.00, although whether the appropriate percentage change from the reference price is 5% or 10% is debatable. This difference of opinion as to what percentage price movement should trigger a Limit State is also something that is best reviewed and determined during the Plan pilot.

Because limit up-limit down is a new concept in the equities markets, no one can say with certainty whether the parameters and time frames selected by the Plan Participants are optimal. Therefore, we suggest that the Phase I of Plan be implemented with the suggested 15 second Limit State and the Percentage Parameter of 5%. The specifics and effectiveness of the Plan should be closely monitored between Phase I and Phase II of implementation. As the rule provides for study, and anticipates almost certain amendment, the length of the Limit State, the Percentage Parameters and other details should be revised if experience, empirical data, and analysis dictate.

As Bryan Harkins, Chief Operating Officer at Direct Edge, noted, when it comes to implementing limit up-limit down caution should be exercised.

> "This is a more complicated implementation than was the case with trading halts," he said. "Trading halts were nothing new to the market ... a halt message gets disseminated through the SIP just as it always has, and when market centers receive that message, they cease executing in that security. Limit up-limit down is different and poses greater potential implementation challenges to internalizers and ATSs, in many respects more so than for exchanges. There are nuances here that will need to be fully thought through."[5]

[5] Traders Magazine On-line (October 22, 2010) http://www.tradersmagazine.com/news/trading-collars-limit-up-limit-down-106482-1.html?zkPrintable=true

Conclusion

While STANY appreciate the potential benefits of speed bumps during times of extraordinary volatility and severe market dislocation, we also believe that unencumbered market forces are generally preferable to artificial trade frictions. STANY believes that limit up-limit down parameters are preferable to the current single stock circuit breakers in that they are likely to result in less trading halts and fewer clearly erroneous trades, and create a better framework for continuous price discovery. Nevertheless, we believe that additional work needs to be done to ensure that the Plan achieves its intended purpose.

The Commission has raised the question as to whether Phase II of the pilot should be conditioned upon Commission approval. In light of the current unanswered questions and unknown potential impacts of the Plan, we believe that SEC approval prior to implementation of Phase II would be the judicious course. We believe that it would be prudent for the Commission to use Phase I as a testing ground for the Plan and that a thorough study of the effects of Phase I should be undertaken before the institution of Phase II. In order to make Phase I of the pilot and the information obtained therefrom as meaningful as possible, STANY suggests that Phase I be expanded to embrace additional stocks, including a sampling of Tier 2 stocks and additional ETF's. STANY also encourages the Commission to review the impact of Phase I on options and futures markets, markets for ETF's, and on stocks that are dually listed in non- US markets prior to advancing to Phase II of the pilot.

We thank the Commission for the opportunity to provide comments on the limit up-limit down Plan. STANY would be happy to assist the Participants and the Commission during the implementation process. Please do not hesitate to contact STANY at 212.344.0410 or kimu@stany.org if you have any questions about STANY's comments.

Respectfully submitted,

Kimberly Unger
Executive Director

cc: The Hon. Mary Schapiro, Chairman
The Hon. Kathleen L. Casey, Commissioner
The Hon. Elisse B. Walter, Commissioner
The Hon. Luis A. Aguilar, Commissioner
The Hon. Troy A. Paredes, Commissioner