



January 16, 2019

Mr. Brent J. Fields
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Eighteenth Amendment to the National Market System Plan to Address
Extraordinary Market Volatility, File No. 4-631

Dear Mr. Fields,

The Securities Industry and Financial Markets Association (“SIFMA”)¹ submits this letter to provide comments to the U.S. Securities and Exchange Commission (“Commission”) on its notice of the Eighteenth Amendment to the National Market System (“NMS”) Plan to address extraordinary market volatility (“Limit Up-Limit Down Plan”).² We recommend the Commission adopt the proposal to: (1) transition the Limit Up-Limit Down Plan from operating as a pilot to a permanent basis; (2) eliminate the doubling of the percentage parameters between 9:30 a.m. and 9:45 a.m.; and (3) eliminate the doubling of the percentage parameters between 3:35 p.m. and 4:00 p.m. for Tier 2

¹ SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry’s nearly 1 million employees, we advocate for legislation, regulation and business policy, affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit <http://www.sifma.org>.

² See Joint Industry Plan, Notice of Filing of the Eighteenth Amendment to the National Market System Plan to Address Extraordinary Market Volatility, 83 Fed. Reg. 66464 (December 26, 2018), *available at* <https://www.govinfo.gov/content/pkg/FR-2018-12-26/pdf/2018-27819.pdf>.

NMS Stocks with a reference price above \$3:00.³ After adopting the proposal, we recommend that the Commission review the Clearly Erroneous Execution (“CEE”) rules and their interaction with Limit Up-Limit Down. Under a separate cover, we have submitted comments on reforming the governance structures of NMS Plans.⁴

Make Limit Up-Limit Down Permanent with a Mechanism for Periodic Review and Assessment

We recommend the Commission approve the proposal to operate the Limit Up-Limit Down Plan on a permanent basis with a mechanism for periodic review and assessment. The Limit Up-Limit Down Plan began as a pilot to address extreme volatilities in response to the Flash Crash in 2010 when the rapid sell-off of securities was exacerbated as computer trading programs rapidly sold large volumes at rapid pace to avoid losses. Over time, the plan has been effective in suspending trading before execution when a security experiences extraordinary price volatility.

Further, the Limit Up-Limit Down Plan has been effective during particularly volatile market conditions. As evidenced by the market events on August 24, 2015, the Limit Up-Limit Down Plan bands work to limit runaway stocks and panic selling or buying. Additionally, in February 2018, the Limit Up-Limit Down Plan operated as intended to reduce volatility by keeping prices within the bands. As a result, the Limit Up-Limit Down Plan falls within the Commission’s mission to protect investors and promote fair, orderly, and efficient markets, and the plan should be made permanent.

Eliminate the Doubling of Percentage Parameters

We recommend that the Commission approve the proposal to eliminate doubling of the percentage parameters to promote continuous trading and reduce the disruptions from tightening and expanding the bands at 9:45am and the last 25 minutes of trading for Tier 2 stocks above \$3.00.⁵ Currently, the price bands for an NMS Stocks are doubled between 9:30 a.m. and 9:45 a.m., and 3:35 p.m. and 4:00 p.m., or in the case of an early close, during the last 25 minutes of trading. Doubling of Percentage Parameters results in Price Bands for Tier 1 and Tier 2 NMS Stocks priced above \$3.00 of 10% and 20%, respectively.

³ Eighteenth Amendment at 66464 – 65.

⁴ See Letter from ICI, IEX, and SIFMA to Brent Fields, SEC on Eighteenth Amendment to the NMS Plan to Address Extraordinary Market Volatility dated January 16, 2019.

⁵ Eighteenth Amendment at 66473.

Narrowing of the Limit Up-Limit Down Plan bands at 9:45 a.m. has led to some extraneous halts from quotations not being updated before the narrowing. The proposal states that over 21% of all limit states and trading pauses occur in the five minutes following the contraction of price bands, and this is primarily driven by the sudden contraction of price bands.⁶ Additionally, on August 24, 2015, more than 60% of Limit Up-Limit Down Plan halts followed a price rise, and most of these (88%) occurred shortly after 9:45 a.m. when the Limit Up-Limit Down Plan percentage price bands are no longer doubled.⁷

These amendments to the Limit Up-Limit Down Plan should reduce volatility and eliminating the doubled price bands should not result in a significant increase in limit states and trading pauses during that time. Instead, we expect that market participants will adjust their quotes to be within the tighter price bands. We support reducing the number of times the Limit Up-Limit Down Plan bands change during the day to promote certainty in prices and reduce the risk of extreme price movements.

Synchronize Clearly Erroneous Execution Rules and Limit Up-Limit Down Plan Percentage Parameters

After adopting the proposal, we recommend the Commission adopt the recommendation of the Equity Market Structure Advisory Committee to review CEE rules to promote certainty of execution so that all trades executed within the Limit Up-Limit Down Plan bands stand.⁸ The inconsistencies between CEE levels and Limit Up-Limit Down Plan stock tiers and bands result in some executions within Limit Up-Limit Down Plan bands breaking pursuant to CEE rules with narrower percentage ranges. The uncertainty of execution from the potential of CEE rules breaking trades that fall within the Limit Up-Limit Down Plan bans, adversely impacts the liquidity and quotes provided by market makers during times of market stress.

⁶ Eighteenth Amendment at 66473 – 74.

⁷ SEC Division of Trading and Markets Staff of the Office of Analytics and Research, Research Note: Equity Market Volatility on August 24, 2015, 69 (December 2015) *available at* https://www.sec.gov/marketstructure/research/equity_market_volatility.pdf.

⁸ SEC Equity Market Structure Advisory Committee, Recommendations for Rulemaking on Issues of Market Quality (November 29, 2016) *available at* <https://www.sec.gov/spotlight/emsac/emsac-recommendations-rulemaking-market-quality.pdf>.

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SIFMA greatly appreciates the Commission's consideration of the issues raised above and would be pleased to discuss these comments in greater detail with the Commission and the Staff. If you have any questions or need any additional information, please contact T.R. Lazo (at [REDACTED] or [REDACTED]).

Sincerely,



Theodore R. Lazo
Managing Director and
Associate General Counsel

cc: The Honorable Jay Clayton, Chairman
The Honorable Robert J. Jackson, Jr., Commissioner
The Honorable Hester M. Peirce, Commissioner
The Honorable Elad L. Roisman, Commissioner

Brett Redfearn, Director, Division of Trading and Markets