June 22, 2011

Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: File No. 4-631, Plan to Address Extraordinary Volatility Submitted to the Securities and Exchange Commission Pursuant to Rule 608 of Regulation NMS Under the Securities Exchange Act of 1934.

Dear Secretary Murphy:

STA[1] welcomes the opportunity to comment on the Plan to Address Extraordinary Market Volatility (the "Plan") Submitted to the Securities and Exchange Commission ("Commission") Pursuant to Rule 608 of Regulation NMS Under the Securities Exchange Act of 1934 ("Exchange Act") by various self-regulatory organizations ("SROs"). Over the course of our seventy-seven year history, the Security Traders Association ("STA") has written comment letters and special reports on market structure issues. This library of material provides STA a historical perspective on market structure and serves as a vital resource when formulating opinions on current issues.

The Plan and The STA Response

The STA has long held the position that markets evolve and that by following basic principles to drive future market structure, the promise of the National Market System ("NMS") on behalf of investors can be fulfilled. Among these principles are; the observance of due process in rulemaking, incremental change is best, the use of empirical data in the rule making process and regulations should not favor any one business model or platform . STA feels the Plan has the potential to be a positive force in the long term evolution of our markets and adhering to these basic principles during the design stage will best ensure the Plan meets its intended goals with maximum benefit.

Investor confidence has suffered in the wake of the events on May 6, 2010. The sudden, unanticipated price movements on a large number of securities coupled with the inordinate amount of clearly erroneous transactions which occurred that day have caused investors to question the integrity of our financial markets. The Plan is a constructive response to certain market inefficiencies discovered in the aftermath of that day.

[1] STA is the leading trade organization for individual professionals in the securities industry that works to improve the ethics, business standards and working environment for its members. STA is comprised of 26 Affiliate organizations, nationally and internationally, with a total of 4,200 professional trade industry members who are engaged in the buying, selling and trading of securities. The Security Traders Association is committed to promoting the interests of its members throughout the global financial markets, providing representation of these interests in the legislative, regulatory and technological processes, while fostering goodwill and high standards of integrity in accord with the Association's founding principle, **Dictum Meum Pactum** – "*My word is my bond*".

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STA is in support of the basic design of the Plan and that the Plan will take the form of a pilot so benefits and unintended consequences can be identified. STA does have some concerns over certain aspects and would like to offer our recommendations to remedy these concerns.

Under the Plan, percentage limit up and limit down price parameters are determined for all NMS securities, which, when met for a defined period of time, trigger a trading pause. The trading pause is followed by a price discovery opportunity and then ultimately a reopening of the security occurs. STA agrees with this design aspect in the Plan and we expect this to offer an efficient process of re-opening halted securities. This process has the support of STA.

That said, empowering investors with this level of knowledge and protection should encourage liquidity to flow back into the market at times of moderate to extreme volatility. Further details of the Plan (such as: are the proposed percentage levels for the Price Bands appropriate; is 15 seconds an appropriate maximum length of time for a particular security to be in a Limit State; should the plan be expanded to include additional products) are extremely difficult to determine at this junction and in our opinion cannot be properly evaluated until the pilot has begun and experience with actual trading activity can be monitored. STA strongly urges the Commission to require the Plan sponsors to closely monitor and analyze the operations of the rule so that it can be refined in a manner to best protect the investing public.. Given the dynamic nature of the markets, STA expects it will likely take several amendments and revisions to the Plan before it reaches final form and yields the maximum benefit to all investors, in NMS securities of all trading characteristics.

Therefore, STA recommends that careful due diligence be applied as to how amendments to the Plan are made, approved, and implemented. As proposed such due diligence cannot be achieved. The Plan's Oversight Committee does not include representation of a broad spectrum of market participants.

The STA recommends instituting a structure and procedures that would include representatives from a diverse universe of market participants and a means to enact revisions to the Plan as situations or conditions warrant. The creation of this broad group could allow for adjustments to the Plan and would better ensure beneficial future changes in market structure, while simultaneously continuing to achieve its objective in protecting investors.

The STA recommends that the Plan be amended to include a User Advisory Committee ("UAC"). The UAC would provide such representation to the SROs as they make revisions to the Plan over time.

Another concern of the STA is whether the Securities Industry Processors ("SIP" and "Processor") will be able to calculate and disseminate the limit up and limit down price bands in an accurate and timely manner. Failure to do so may result in an impact to the efficient handling of transactions and harm investor confidence. This would be a new function for the SIPs and STA feels it is in the best interests of the marketplace, that reasonable performance data is collected and published so market participants are better able to understand the SIPSs capability in performing this function. In doing so, market participants will be better able to manage their regulatory and financial risks.

Sudden, unanticipated price movements

STA believes that the Plan will reduce the breadth of sudden, unanticipated price movements.

It is understood that the Plan is intended to counter sudden, unanticipated price movements in the price of securities. The Plan is expected to provide more predictable treatment of customer orders and thereby improve investor confidence. The Plan provides a means and procedure to allow securities, during moderate to extreme periods of volatility, to trade at prices which reflect true investor sentiment, while protecting the interests of investors. The basic characteristics of the Plan: disseminating pre-determined price bands; instituting trading pauses; and providing opportunity for price discovery during a paused state; are currently absent in the market. Having such information available to market participants with the additional protection provided under the described price bands increase the likelihood liquidity will enter the market during moments of moderate to high volatility.

Clearly Erroneous Transactions

STA believes the Plan will reduce the frequency of clearly erroneous transactions which occur at certain price levels.

STA has consistently advocated the need for clear, uniform and market wide clearly erroneous trade rules. This allows for a uniform and consistent way for markets to respond to extraordinary events.[1]

While the Plan does not specifically address clearly erroneous transactions, it does establish "proposed procedures that provide for market-wide limit up-limit down requirements that would be designed to prevent trades in individual NMS Stocks from occurring outside the specified Price bands."[2] Since all market centers would be required to maintain and enforce written policies, STA believes that the Plan will reduce the frequency of clearly erroneous transactions across all market centers which today could occur in the absence of a Limit-up Limit-down rule.

SEC Order Handling Rules In a Plan Regime.

STA thinks clarification on SEC Order Handling Rules is needed and should be uniform across all market centers.

Market centers that are subject to SEC Order Handling Rules will need clarification on their obligations and responsibilities under the Plan. STA has consistently advocated that responses be consistent and uniform across all market centers.[3]

All market centers would benefit from receiving guidance on best industry standards for handling customer orders during the periods of time when securities are in a "Limit" or "Pause" state, as well as periods when trading in a security restarts after a trading pause.

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[1] "The STA's Perspective on U.S. Market Structure", STA Special Report, May 2008, pg. 2. "Lastly, there should be clear, uniform and market wide clearly erroneous trade policies…..Because the exchanges are interconnected and a good deal of trading occurs on more than one venue, market centers should have uniform policies in place to collectively deal with such extraordinary events."

[2] 31647 *Federal Register*, Vol. 76, No. 105, June 1, 2011, Joint Industry Plan; Notice of Filing of a National Market System Plan to Address Extraordinary Market Volatility by BATS Exchange, Inc., BATS Y-Exchange, Inc., Chicago Board Options Exchange, Inc., Chicago Stock Exchange, Inc., EDGA Exchange, Inc., EDGX Exchange, Inc., Financial Industry Regulatory Authority, Inc., NASDAQ OMX BX, Inc., NASDAQ OMX PHLX LLC, The Nasdaq Stock Market LLC, National Stock Exchange, Inc., New York Stock Exchange LLC, NYSE Amex LLC, and NYSE Arca, Inc.

[3] *See, e.g.,* STA comment letter to the Securities and Exchange Commission, June 19, 2003, "The STA Trading Issues Committee believes that all customer-protection related rules applicable to order execution must be uniform to maximize protection of the public interest and to ensure that order flow is not determined by lax, ineffective or nonexistent regulation."

Market Data

The role of the "Processor" in calculating and disseminating the applicable price bands accurately and timely is vital to the success of the Plan.

In a letter to the Commission on April 30, 2010, STA identified and distinguished "Statistical Arbitrage Strategies" from "Structural Strategies".[4] The former is a widely acceptable practice among market participants, while the latter, in particular how as it pertains to "liquidity arbitrage", exploits an inherent weakness in the market.

In the case of "liquidity arbitrage", the market weakness is in the latency differences between the market data disseminated by the various SIPs (CQS and UQDF) versus direct data feeds. While the SIPs have made tremendous improvements to their latency in disseminating market data, their role as Processor is a new and complex function. It is reasonable to understand why market participants, who were historically disadvantaged for using the market data obtained via the SIP over firms who used direct feeds, may be skeptical that the Processor will be able to fulfill their new responsibilities as required in the Plan. Despite this skepticism, STA does feel that SIPs are the most logical solution to perform the function of Processor. There needs to be a centralized process for fulfilling the role of the Processor and the SIPs are best position to do so..

The STA is not aware of any data that demonstrates whether the SIPs can or cannot perform this function. We therefore, respectfully ask that the SIPs provide reasonable data to demonstrate their ability to function as Processor with limit up-limit down procedures in place. This data could be obtained by back testing real market data. This would provide an estimate of what market participants can reasonably expect, and it will provide firms an opportunity to manage their regulatory and financial risks. To be clear, at this time STA cannot identify a "structural arbitrage" which could result from latency and inefficient performance by the Processor. However, when latencies or inefficiencies have existed in the past, certain market participants have been able to exploit them to their own benefit, which can result in a loss of investor confidence.

Advisory Committee: A Vehicle to Provide Input.

STA believes users, investors and agents of investors should have a vehicle to provide input on the ongoing review and evaluation of the Plan.

The STA understands that the Plan has been created by and for the Plan participants, the exchanges. We also agree that the Plan should be monitored and governed by an operating committee. However, the value of the plan will be gauged by how effective it is in curbing periods of volatility it is designed to curb while minimally impacting the normal course of trading volume and volatility.

The Plan's Operating Committee is constituted of representatives of Plan participants, which are operators of exchange facilities. The STA believes that any market mechanism which is put in place

[4] *See,* STA letter to the Securities and Exchange Commission, April 30, 2010, http://www.sec.gov/comments/s7-02-10/s70210-170.pdf

across market centers should allow for the input of users, investors and agents of investors in the ongoing review and evaluation of its effectiveness. The STA respectfully asks the SEC to mandate a "Plan Users Advisory Committee" (UAC) which would report to the Operating Committee of the Plan. The STA encourages continued due process in the review and recommendations for altering the plan. This can best be accomplished through the responsiveness of the Operating Committee to the needs of the Users Advisory Committee. We suggest that the Plan Participants have equal rights to nominate participants to the UAC. The UAC should be a composed to best represent a cross section of users, investors and agents in the marketplace.

The STA appreciates the opportunity to comment on the Plan and looks forward to continued dialogue with the Commission on this and other critical market structure issues.

Respectfully submitted,

Joseph N. Cangemi
Chairman

Jim Toes
President & CEO

cc:

SEC Chairman Mary L. Schapiro
SEC Commissioner Kathleen L. Casey
SEC Commissioner Elisse B. Walter
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