The Security Traders Association of New York, Inc.

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Kimberly Unger
Executive Director

May 10, 2010

The Honorable Mary Schapiro, Chairman
U.S. Securities and Exchange Commission
100 F. Street NE
Washington, DC 20549-1090

By email: rule-comments@sec.gov

RE: Release No. 34-61358; File No. S7-02-10
Concept Release on Equity Market Structure

Dear Ms. Schapiro:

The ***Security Traders Association of New York, Inc. ("STANY")***[1] respectfully submits this letter both as a supplemental response[2] to the Securities and Exchange Commission's (the "SEC" or the "Commission") Concept Release on Equity Market Structure ("the Concept Release") No. 34-61358, File No S7-02-10[3] and in response to the volatile trading of last Thursday, May 6, 2010, that saw a precipitous decline in the price of a number of securities between 2:40 and 3:00 p.m. ET.

Regardless of what started the dramatic trading, whether it was a "fat finger" error, a sell off based on fundamentals and/or a concern about the economic situation in Europe that triggered sales by algorithms which led to a cascade of declining equity prices as sell orders out paced demand, or some as yet unidentified market glitch, it is clear that the ensuring chaos was not good for investors or market confidence We believe that last Thursday's activity shows the immediate need for unification of rules across all markets. No matter what the cause, it is clear that dislocation occurred and that the markets did not react in concert.

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[1] ***STANY*** is the voice of the trader in the New York metropolitan area and represents approximately 1,200 individuals who are engaged in the trading of equity securities. As such, we are uniquely qualified to discuss proposed rules and regulations affecting the purchase and sale of equity securities. ***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.

We believe that strong efficient markets that support capital formation require an appropriate balance between effective regulation on the one hand and innovation and competition on the other. We support innovation in the markets and believe that competition is the best driver of innovation and market improvements. We appreciate and support the existence of various centers of liquidity including registered exchanges, ECNs, ATSs, and market makers the existence of which provide choices for investors and help to maintain the primacy of the US capital markets.

[2] *See*, Letter of Kimberly Unger, Executive Director of The Security Traders Association of New York to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission dated April 30, 2010

[3] Exchange Act Rel. No. 61358 (Jan. 14, 1010), 75 Fed. Reg. 3594 (Jan. 21, 2010) ("Concept Release")

An immediate and logical stop gap for irrational trading appears to be needed. We believe that circuit breakers across all markets would be the best way to address the issue of erratic trading in an effective and targeted manner. We think it is important that the SEC, exchanges and ATSs continue to scour trading records with an eye toward determining the cause of Thursday's market slide, as well as to determine if market participants exploited the turmoil to profit illegally. However, regardless of the cause, we believe that the situation highlighted the need for 1. Unified rules across markets, 2. Unified market surveillance, 3. A way to slow down or stop trading across asset classes and across markets in times of market duress and 4. Unified "clearly erroneous" trade rules.

In the past, STANY and its members have generally favored measured approaches to market structure changes and have consistently called for the implementation of rules that are supported by empirical data. Our concerns about potential unintended consequences of reactionary regulation remain undiminished.

However, we have also called for the harmonization of regulatory oversight and the need for similar rules across venues, including exchanges, ATSs and other liquidity sources that are connected through the Reg. NMS regulatory framework. Last week's trading glitch demonstrates that need for uniformity of regulation across markets. The interconnectedness of the various exchanges and trading centers and the creation of options and derivatives that mirror or depend upon trading in stocks, necessitates a common approach to market events.

Regardless of what started the rapid decline in the price of various stocks on Thursday, it appears that disparate trading conventions and rules across markets may have contributed to the spike in volatility and resulted in an additional decline in stock prices. As a result, we believe that the Commission and CFTC should work together to implement consistent policies that are enforced when stock prices move chaotically and that these rules should apply across all trading platforms. In situations of <u>extreme stress or dislocation</u>, we would suggest that a market wide multi-asset class circuit breaker applied consistently would slow the cascading impact of electronic trading that seems to have occurred on Thursday.

Circuit breakers have been used in the past and have been successful. In the past circuit breakers that were limited to one exchange were appropriate. Given that stocks no longer trade only on their primary exchange, a single exchange circuit breaker however will no longer be effective. As Thursday's trading demonstrates, the markets are so interconnected that when trading halts or slows on one market, it will need to halt or slow on other markets as well in order to be effective.

In the course of discussing the events of last Thursday many market participants have called for the institution of circuit breakers on a stock by stock basis. Conceptually, this would appear to be the most direct solution and one that we would endorse. We believe that a "time-out" of some pre-set specified length would be beneficial to allow pricing adjustments of individual stocks and to allow market participants to make informed and rational decisions.

Nevertheless we do have some questions/concerns about such a stock by stock trading halt. For example, with a stock by stock trading halt, we question what the impact of a trading halt in a security would have on a basket, index, convertible security, option, future or ETF that includes or is based upon that security? Likewise, at present we are not in a position to recommend either a specific percentage move in a stock that would trigger a circuit breaker or a time period that should be applied to the halt. Perhaps the decision by NASDAQ to break any trade that took place on Thursday between 2:40 and 3:00 p.m. that was more than 60% off the last sale price prior to that period could provide the Commission with some sort of guidance in determining the appropriate place to implement a circuit breaker.

Generally, we think that circuit breakers implemented on a stock by stock basis would be effective to meet most situations caused by human error or trading based on misinformation, but we caution that there may be instances of extreme market duress that would merit a market-wide halt. We would leave the preliminary design of appropriate circuit breakers to the exchanges and the SEC and CFTC. We would recommend that any circuit breaker that is implemented be reviewed periodically to determine if the specific triggering incident and/or the specified time period for the halts require adjustment.

We believe that it is equally important to work towards a regulatory structure which provides more harmonized and centralized market surveillance. Along those lines, we are pleased that the NYSE and FINRA, subject to review by the SEC, have agreed that FINRA will assume responsibility for performing the market surveillance and enforcement functions currently conducted by NYSE Regulation.

As FINRA provides regulatory services to multiple national exchanges, this move should address gaps in regulatory coverage and move the US markets toward a unified system of regulation. We believe that FINRA will be in a better position to take a holistic, cross-market approach to regulation and will be better able to detect problematic activity across multiple markets and products.

Lastly, while questions remain about the cause of the unusual trading of May 6th, we caution the Commission, regulators and legislators against reactionary responses. The ultimate goal should be to put in place targeted rules that will prevent or minimize a similar market dislocation in the future while at the same time create as little disruption and minimal unintended consequences to the markets as possible.

Respectfully submitted,

Kimberly Unger
Executive Director

cc: Members of the United States Senate Banking Committee