CREDIT SUISSE SECURITIES (USA) LLC
One Madison Avenue
New York, NY 10010

Ms. Elizabeth Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC. 20549-1090

June 3, 2010

Re: **Comment Letter on Proposed Circuit Breaker Halts**

Dear Ms. Murphy:

Credit Suisse Securities (USA) LLC ("Credit Suisse") welcomes the opportunity to comment on the circuit breaker halts being proposed by the exchanges and by the Financial Industry Regulatory Authority ("FINRA").[1] We respectfully submit this letter to the U.S. Securities and Exchange Commission (the "Commission") summarizing our views.

The United States broker-dealer subsidiary of Credit Suisse Group has been operating continuously since 1932, when the First Boston Corporation was founded. As one of the world's leading banks, Credit Suisse Group provides its clients with private banking, investment banking and asset management services worldwide. Credit Suisse is the largest broker-dealer in America by volume traded, as well as the top overall equities broker and the top broker in algorithmic trading in several recent surveys.[2] Additionally, Credit Suisse owns and operates Crossfinder, which is the largest Alternative Trading System ("ATS") in the U.S.[3]

Introduction

The current U.S. equities market structure lacks mechanisms to stop price disruptions caused by erroneous trades or investor panic. On May 6, 2010, this flaw was revealed in dramatic fashion as we witnessed major price disruptions

[1] File Numbers: SR-BATS-2010-014; SR-CBOE-2010-047; File No. SR-CHX-2010-10; File No. SR-EDGA-2010-01; SR-EDGX-2010-01; SR-FINRA-2010-025; SR-ISE-2010-48; SR-NASDAQ-2010-061; SR-BX-2010-037; SR-NSX-2010-05; SR-NYSE-2010-39; SR-NYSEAmex-2010-46; SR-NYSEArca-2010-41; Stock-by-Stock Circuit Breaker Rule Proposals.
[2] Bloomberg RANK for S&P 500, 1st quarter 2010; Greenwich Survey, April 2010; Tabb Report, November 2009
[3] Rosenblatt Securities, "Let There Be Light", March 2010

and trades that did not reflect an orderly market. Furthermore, the arbitrary and chaotic nature of current "clearly erroneous" trade policies were revealed to investors, when some of the trades that occurred during the crash period were reversed, while others were allowed to stand.

We believe that the proposed circuit breakers are an important step to prevent a reoccurrence of the events of May 6th, and therefore Credit Suisse supports the proposal. Credit Suisse also commends the regulators for moving aggressively to help correct this flaw in our market structure. However, we believe the proposal can be improved by expanding the proposed rule to include more of the trading day, expanding the pilot to include more stocks, lengthening the halt period, implementing a futures-style limit-down (and limit-up) mechanism as an alternative to the circuit breaker trading halt, and requiring that all orders routed by broker-dealers to market centers have a limit price. Our recommendations are discussed in more detail below.

Expand time period to more of the trading day

The proposed pilot calls for a trading halt when a stock in the S&P 500 Index moves 10% within a five-minute period, between 9:45 AM and 3:35 PM. Credit Suisse studied how often these circuit breakers would have been triggered from January 2, 2008 through May 15, 2010, and found that triggers are typically rare events, but not so rare as to never occur.[4] [See charts in Appendices A and B] Based on our study, we believe that the frequency of halts due to the proposed trigger mechanism is reasonable.

While the proposed trigger mechanism has reasonable price movement settings, the current proposal only applies to stocks from 9:45 AM to 3:35 PM, which we think is dangerous. In S&P 500 stocks, 6% of the daily volume typically occurs from 9:30 AM to 9:45 AM, and 18% of the daily volume occurs from 3:35 PM to the close. We do not think it is wise to cordon off 24% of the daily volume from the protection of the new circuit breakers. Furthermore, intra-day volatility is at its highest in the first and last 30 minutes of the day, so these time periods are particularly vulnerable to severe price movements. [See chart in Appendix C] We recommend that the Commission and the exchanges carefully review the time period covered by the proposed rule, and consider expanding it to cover more of the trading day.

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[4] Avramovic, Ana, "The Flash Crash Rehashed", Credit Suisse AES Analysis, May 26, 2010.

Add small caps to the pilot

The proposed pilot only applies to stocks in the S&P 500 Index, which are the largest and most liquid stocks in the market. Small capitalization stocks, which tend to be illiquid, are more vulnerable to price disruptions, and may react differently to intra-day trading halts than liquid large capitalization stocks. To learn more from the pilot, we recommend that the pilot be expanded to include a sample of small capitalization stocks. We have included charts that provide a breakdown of how often the circuit breakers would have been triggered in the Russell 2000 stocks. [See charts in Appendices D and E]

Increase length of halt

The proposed pilot calls for a five minute halt in the event that a circuit breaker is triggered. We are concerned that this pause may be too short to achieve the goal. The trading halt theoretically accomplishes two things: it allows traders time to find and cancel erroneous trades, and secondly, it creates time for traders to make calm, rational decisions during moments of panic and uncertainty, when stocks could otherwise lurch to irrational prices.

While five minutes may seem like an eternity within the world of computerized trading, it is not very long from a human perspective. Five minutes may not be an adequate amount of time for large broker-dealers to learn about the halt and then search through all their orders, which may be spread across dozens of trading desks that are informationally walled off from each other. And, it is almost certainly not enough time for fundamental long-term investors to perform any meaningful analysis and understand the reasons behind a sudden price drop, and then make a rational decision to buy or sell. A longer halt would maximize the number of market participants that are informed enough to participate in the market on the re-open and therefore would increase pricing efficiency and reduce volatility.

Given the limited frequency of trading halts under the proposed triggers, we think a ten minute halt would be a reasonable compromise: long enough to allow humans time to make rational decisions, while still short enough to avoid overly disrupting the markets.

Eliminate the need for "clearly erroneous" policies

On May 6th, thousands of trades that occurred during the disruption were later broken by the exchanges based on arbitrary thresholds set by the exchanges after-the-fact, causing significant problems. Many traders that were on the profitable side of the broken trades had already hedged market or sector exposure, and ended up with monetary losses. Given these actions, in the event of a similar melt-down scenario, traders will be more risk averse and will avoid buying stocks that are rapidly dropping out of fear that the trades may later be broken, leaving them exposed to market risk. “Clearly erroneous” policies add a dangerous and arbitrary element to our market structure. They raise the level of risk in already volatile situations, making bad situations worse.

If the regulators shifted from circuit breaker halts to a futures-style limit-down (and limit-up) mechanism, it would be impossible for trades to occur outside of the acceptable range, and “clearly erroneous” trades would become a thing of the past. While circuit breaker halts should stop most erroneous trades, it is still possible that the trade actually triggering the halt may need to be broken at a later time, particularly if it is an Intermarket Sweep Order (“ISO”), which could occur at a price far below or above the current market.

There is a long history in the futures markets of using limit-down and limit-up pauses, and they have been effective in curtailing severe errors or market dislocations.[5] Credit Suisse supports their use in the equities markets. While we support the current circuit breaker proposal versus doing nothing, we think a limit-down (limit-up) alternative would be better, and if designed properly would eliminate the need for “clearly erroneous” policies.

Eliminate market orders

Stocks can only trade at prices as low as their lowest-priced sell order. An order to sell "at the market" is the most aggressive order possible, being a sell order with a limit price of zero, while a buy market order is even more frightening, being a buy order with a limit of infinity. The market order type is based on faith that the other side will materialize at a reasonable price, which is unlike how people buy or sell almost everything else--no one bids for a house, or even for a pair of Yankees tickets without putting out some maximum price. Yet the majority of orders in the equities market from retail investors are sent at the market.

While circuit-breakers can certainly minimize the damage caused by erroneous market orders, we believe that the market order type itself is at the root of the

[5] See, for example, Ma, C.K., Rao, R.P., Sears, R.S., 1989. Volatility, price resolution, and the effectiveness of price limits. Journal of Financial Services Research 3, 165–199.

problem. We suggest that the U.S. regulators follow the lead of Germany, Hong Kong, Brazil, New Zealand, and Finland and mandate that broker-dealers place a limit price on all orders being routed to market centers.

Conclusion

Credit Suisse supports the trading halt proposal, although we suggest the following improvements and additional actions:

- Expand the scope of the rule to cover more of the trading day.
- Expand the pilot to include some illiquid stocks.
- Increase the length of the halt to 10 minutes.
- Consider a futures-style limit-down/up policy instead of a halt.
- Mandate that all orders routed by broker-dealers to market centers have a limit price.

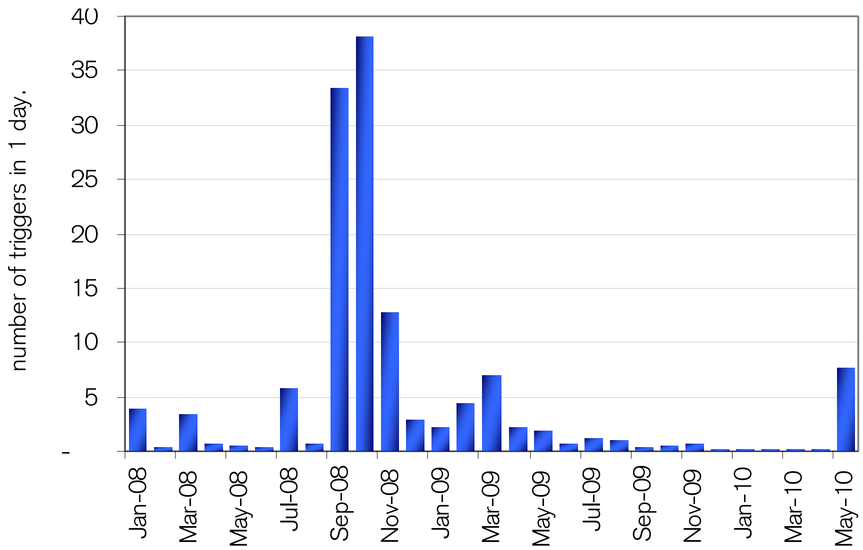
We commend the regulators for taking an aggressive approach towards solving this flaw in our market structure, and for taking steps to protect investors from disruptions resulting from erroneous trades and momentary market imbalances.

Respectfully submitted,

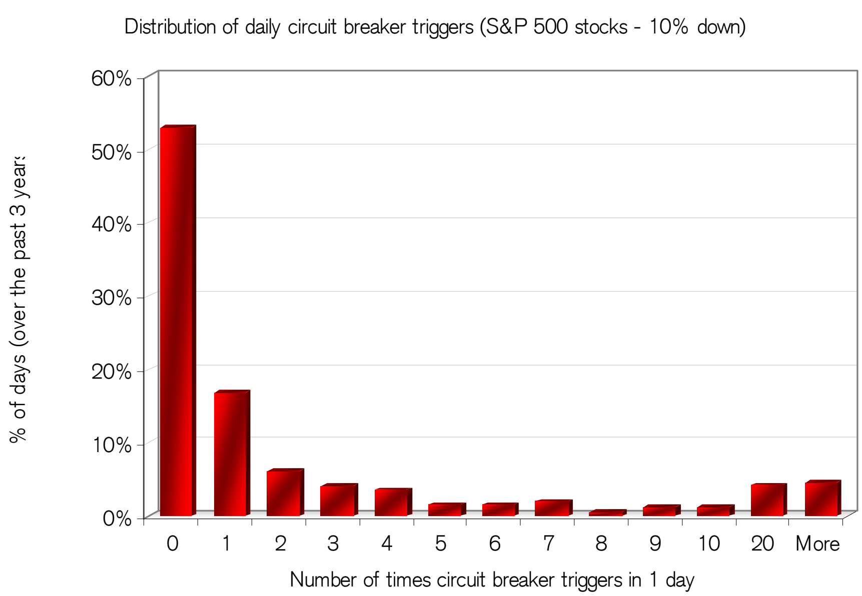
Daniel Mathisson
Managing Director
On behalf of Credit Suisse Securities (USA) LLC

cc: Hon. Mary Schapiro, Chairman
Hon. Kathleen L. Casey, Commissioner
Hon. Elisse B. Walter, Commissioner
Hon. Luis A. Aguilar, Commissioner
Hon. Troy A. Paredes, Commissioner
Mr. David Becker, General Counsel and Senior Policy Director
Mr. Robert W. Cook, Director, Division of Trading and Markets
Mr. James Brigagliano, Deputy Director, Division of Trading and Markets
Mr. David Shillman, Associate Director, Division of Trading and Markets
Mr. Henry Hu, Director, Division of Risk, Strategy, and Financial Innovation

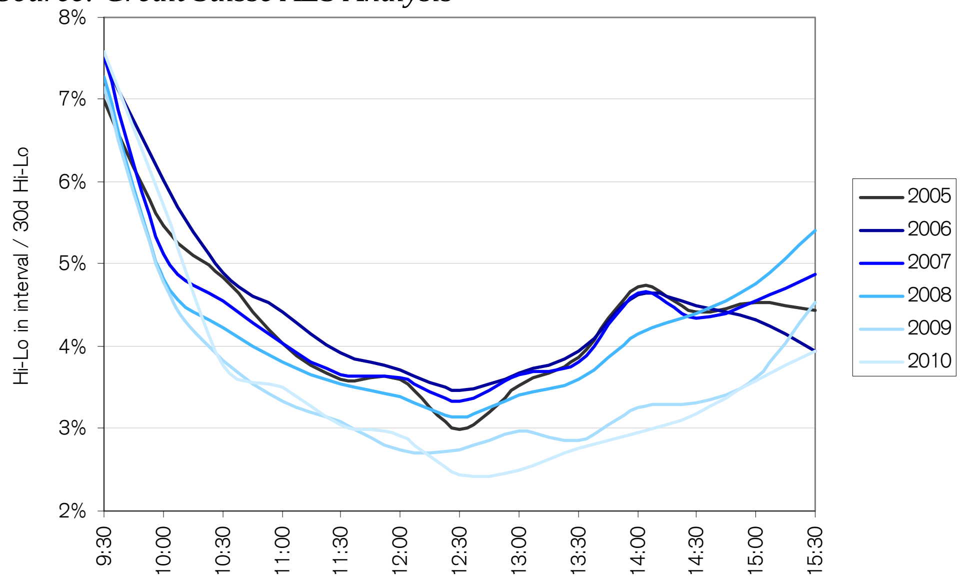
Appendix A: Average Number of Circuit Breaker Triggers Per Day in S&P 500 stocks, January 2008 – May 2010. *(10% move in 5 minutes)*
Source: Credit Suisse AES Analysis



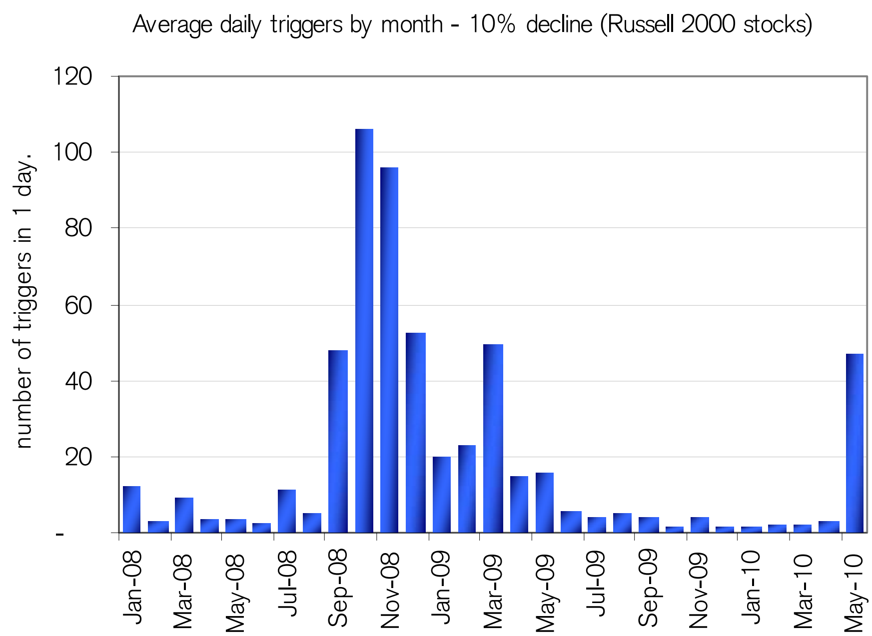
Appendix B: Distribution of Daily Circuit Breaker Triggers in S&P 500, January 2008 – May 2010. *(10% move in 5 minutes)*
Source: Credit Suisse AES Analysis



Appendix C: Intra-day volatility patterns, normalized by long-term volatility, S&P 500 stocks, 2005 – 2010
Source: Credit Suisse AES Analysis



Appendix D: Average Number of Circuit Breaker Triggers Per Day in Russell 2000 stocks, January 2008 – May 2010. *(10% move in 5 minutes)*
Source: Credit Suisse AES Analysis



Appendix E: Distribution of Daily Circuit Breaker Triggers in Russell 2000, January 2008 – May 2010. *(10% move in 5 minutes)*
Source: Credit Suisse AES Analysis