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Wellington Management Company, LLP

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July 19, 2010

*Via Electronic Filing*

Ms. Elizabeth M. Murphy  
Secretary  
US Securities and Exchange Commission  
100 F Street, N.E.  
Washington, DC 20549-1090

**Re: File No. S7-02-10 (Comments on the Proposed SRO Rules Regarding Amendments to Clearly Erroneous Rules and Pilot Program Regarding Circuit Breakers)<sup>1</sup>**

Dear Ms. Murphy:

Wellington Management Company, LLP (“Wellington Management”) appreciates the opportunity to comment on proposed rules submitted by self-regulatory organizations (“SROs”) regarding amendments to existing clearly erroneous trade rules, and the circuit breakers for individual securities being conducted as a pilot program through December 2010 (the “Proposed Releases”).

### **Introduction**

Wellington Management is a privately owned, investment management firm registered under the Investment Advisers Act of 1940 (the “Advisers Act”) that provides investment services to investment companies, employee benefit plans, endowments, foundations and other institutions. As of June 30, 2010, Wellington Management served as an investment adviser to approximately 1600 clients and had investment management authority with respect to approximately \$500 billion in assets. Wellington Management’s investment services include portfolio management styles and approaches in equities, fixed income securities, and asset allocation across all asset categories.

We support the Commission’s examination of the current equity market structure because ongoing technological, regulatory, and market practice changes may give rise to the need to modify market regulation from time to time. On May 6, 2010, the US equity markets experienced extreme price volatility during a short time (“May 6 Event”). We believe that the May 6 Event highlighted areas for improvement in the current structure.

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<sup>1</sup> The file numbers are attached as Exhibit A to assist the Commission in posting this comment letter to the appropriate proposed SRO rule files.

Our comments derive from two general principles.

1. Trading pauses can be beneficial in times of extreme price volatility.
2. Canceling trades undermines market integrity and should be minimized.

### **A Trading Halt or Price Collar Can Be Beneficial in Times of Extreme Price Volatility**

As the May 6 Event and other historical market events illustrate, changes in quotes and trade prices can unfold faster than markets can reasonably assimilate them. Price declines are especially prone to feedback effects whereby selling, if left unchecked, can beget further selling in a vicious cycle. Therefore, we believe that a temporary trading halt or price collar would be beneficial for market function and integrity by providing a mechanism for mitigating these issues.

We support the Commission's and the SROs' creation of a pilot security-level trading halt mechanism to assess the effectiveness of such a mechanism. We look forward to evaluating the performance of this pilot program and urge the SEC to consider other mechanisms such as price collars, whereby stocks are constrained only to trade within a dynamic price range, but do not halt. Price collars have the benefit of not pausing trading unless there is no bid or offer within the price range and reducing or even eliminating the potential for "clearly erroneous" trades by not permitting trades outside the price range.

#### *Halt Triggers Should Be Robust*

We appreciate that the Commission and the SROs are still evaluating the trading halt triggers in a pilot study. Based on our observations of the pilot study as market participants, we are concerned that halts can be triggered by a single erroneous trade. Since this pilot program was implemented, three different halt events have occurred, all triggered by erroneous trades. A trading halt for The Washington Post Company (NYSE: "WPO") was triggered on June 16, 2010 by three trades of 100, 200, and 400 shares executed at more than double the previous last reported price. A trading halt was triggered for Citigroup Inc. (NYSE: "C") on June 30, 2010 by a trade printed for 8,820 shares for a stock that trades hundreds of millions of shares each day. Similarly, on July 6, 2010, a trading halt was declared for Anadarko Petroleum Corp. (NYSE: APC) after the execution of 200 shares at a price of \$100,000.00 per share versus a price of \$39.16 per share on the previous reported trade.

Under the pilot rules, any trader with a single erroneous trade can trigger a trading halt in any pilot security. We question whether any single trade, particularly a small, erroneous one, should be allowed to trigger a trading halt for a security. Our concerns on this issue are magnified, as discussed below, if the clearly erroneous

trading rules are substantially expanded to mandate cancellation of trades over an additional threshold after a trading halt is declared as a result of a trade that should not have occurred under existing rules. Rather, we believe that market integrity would be enhanced by pre-cancellation of trades that do not qualify for Regulation NMS pricing exceptions in the first instance.

We believe that the Commission and the SROs, in conjunction with the pilot program, should evaluate whether trades are being reported correctly, with appropriate exceptions to Regulation NMS. Specifically, the Commission and SROs should examine whether system enhancements are necessary and feasible to prevent the printing of improper Regulation NMS exception trades and/or rejecting improperly marked exception trades.

#### *Trading Pause Trigger Prices Should be Disclosed with Quotes*

Under the pilot program, trading halts are triggered by any trade executed at or outside a highly dynamic pair of high and low prices based on trailing five minute trade prices. These high and low triggers are constantly changing and most market participants cannot calculate them in real time. We believe that the Commission and SROs should require that these high/low triggers and their maximum remaining life be continuously disclosed as part of the basic quotation for a particular security. The widespread dissemination of this information would improve market transparency and function, as well as help level the playing field for all investors.

#### **Canceling Trades Undermines Market Integrity**

We believe that cancelled trades can undermine market integrity and should only be done in extraordinary circumstances. The existence of trade cancellation procedures can increase moral hazard in markets. In addition, the risk of trade cancellation discourages liquidity provision just when it is most needed, in times of extreme volatility.

The Commission and SROs should consider alternatives that would *prevent* the execution of transactions outside of the halt or collar price range rather than *canceling* them after the fact. As noted above, this approach is inherent in price collar mechanisms and is one important reason we urge the Commission to consider them. However, this approach also works with trading halts. Rather than a triggering trade taking place *outside* the defined price range, the trade simply takes place *at* the halt trigger price or, if there are no matching quotes at that price, does not occur at all. Under either scenario, we cannot think of a compelling reason why trades should be allowed to occur at prices that are dislocated beyond such a price range.

We note that there is ample precedent for this and similar approaches in non-US markets, many of which either do not permit trades outside of pre-defined price ranges and/or simply do not cancel trades for any reason. We believe that these approaches encourage more responsible market participation and are ultimately better for market integrity and function. Finally, we believe that the Commission and SROs should also consider playing a leading role in harmonizing these standards among the world's markets in order to promote greater safety, integrity, and liquidity for investors around the globe.

### Conclusion

We commend the Commission and the SROs for carefully assessing the function of the pilot program before proceeding with final rulemaking. We urge the Commission and the SROs to carefully consider other mechanisms for improving market function in times of extreme price volatility, such as price collars, and to pursue the implementation of erroneous trade prevention, which may obviate the need for complex and market-eroding trade cancellation procedures. Wellington Management appreciates your consideration of this letter and looks forward to working with the Commission, the SROs, and their staffs on these important issues.

Sincerely,



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David C. Cushing  
Director of Global Equity Trading  
Wellington Management Company, LLP

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

## Exhibit A to Comment Letter on Clearly Erroneous Rules

### I. Clearly Erroneous Rule Releases

- Notice of Filing of Proposed Rule Change to Amend BATS Rule 11.17, entitled “Clearly Erroneous Executions,” File No. SR-BATS-2010-16, Exchange Act Rel. No. 62340 (June 21, 2010);
- Notice of Filing of a Proposed Rule Change Related to the CBSX Clearly Erroneous Policy, File No. SR-CBOE-2010-056, Exchange Act Rel. No. 62337 (June 21, 2010);
- Notice of Filing of Proposed Rule Change, as Modified by Amendment No. 1, to Amend Article 20, Rule 10 Regarding Clearly Erroneous Transactions, File No. SR-CHX-2010-13, Exchange Act Rel. No. 62336 (June 21, 2010);
- Notice of Filing of Proposed Rule Change, as Modified by Amendment No. 1, to Amend EDGA Rule 11.13, entitled “Clearly Erroneous Executions,” File No. SR-EDGA-2010-03, Exchange Act Rel. No. 62338 (June 21, 2010);
- Notice of Filing of Proposed Rule Change, as Modified by Amendment No. 1, to Amend EDGX Rule 11.13, entitled “Clearly Erroneous Executions,” File No. SR-EDGX-2010-03, Exchange Act Rel. No. 62339 (June 21, 2010);
- Notice of Filing of Proposed Rule Change to Amend FINRA Rule 11892 (Clearly Erroneous Transactions in Exchange-Listed Securities), File No. SR-FINRA-2010-032, Exchange Act Rel. No. 62341 (June 21, 2010);
- Notice of Filing of Proposed Rule Change, as Modified by Amendment No. 1, Relating to Clearly Erroneous Executions, File No. SR-ISE-2010-62, Exchange Act Rel. No. 62330 (June 21, 2010);
- Notice of Filing of a Proposed Rule Change, as Modified by Amendments Nos. 1 and 2, to Amend NASDAQ OMX BX Rule 11890 Governing Clearly Erroneous Executions, File No. SR-BX-2010-040, Exchange Act Rel. No. 62342 (June 21, 2010);
- Notice of Filing of a Proposed Rule Change, as Modified by Amendment No. 1, to Amend NASDAQ Rule 11890 Governing Clearly Erroneous Executions, File No. SR-NASDAQ-2010-076, Exchange Act Rel. No. 62334 (June 21, 2010);
- Notice of Filing of Proposed Rule Change to Amend Rule 11.19, entitled “Clearly Erroneous Executions,” File No. SR-NSX-2010-07, Exchange Act Rel. No. 62331 (June 21, 2010);
- Notice of Filing of Proposed Rule Change Amending Rule 128 Relating to Clearly Erroneous Executions, File No. SR-NYSE-2010-47, Exchange Act Rel. No. 62333 (June 21, 2010);

- Notice of Filing of Proposed Rule Change Amending NYSE Amex Equities Rule 128 Relating to Clearly Erroneous Executions, File No. SR-NYSEAmex-2010-60, Exchange Act Rel. No. 62332 (June 21, 2010); and
- Notice of Filing of Proposed Rule Change, as Modified by Amendment No. 1, Amending NYSE Arca Equities Rule 7.10 Relating to Clearly Erroneous Executions, File No. SR-NYSEArca-2010-58, Exchange Act Rel. No. 62335 (June 21, 2010).

## **II. Proposed Amendments to Circuit Breaker Rules**

- Notice of Filing of Proposed Rule Change to Amend BATS Rule 11.18, entitled “Trading Halts Due to Extraordinary Market Volatility,” File No. SR-BATS-2010-018, Exchange Act Rel. No. 62407 (June 30, 2010);
- Notice of Filing of a Proposed Rule Change Related to Individual Stock Trading Pauses Due to Extraordinary Market Volatility, File No. SR-CBOE-2010-065, Exchange Act Rel. No. 62409 (June 30, 2010);
- Notice of Filing of Proposed Rule Change to Amend the List of Securities Subject to an Individual Circuit Breaker, File No. SR-CHX-2010-14, Exchange Act Rel. No. 62408 (June 30, 2010);
- Notice of Filing of Proposed Rule Change to Amend EDGA Rule 11.14, entitled “Trading Halts Due to Extraordinary Market Volatility”, File No. SR-EDGA-2010-05, Exchange Act Rel. No. 62417 (June 30, 2010);
- Notice of Filing of Proposed Rule Change to Amend EDGX Rule 11.14, entitled “Trading Halts Due to Extraordinary Volatility,” File No. SR-EDGX-2010-05, Exchange Act Rel. No. 62418 (June 30, 2010);
- Notice of Filing of Proposed Rule Change Relating to FINRA Rule 6121 (Trading Halts Due to Extraordinary Market Volatility), File No. SR- FINRA-2010-033, Exchange Act Rel. No. 62416 (June 30, 2010);
- Notice of Filing of Proposed Rule Change to Amend ISE Rule 2102 to Add Additional Securities to the Pilot Rule, File No. SR-ISE-2010-66, Exchange Act Rel. No. 62419 (June 30, 2010);
- Notice of Filing of a Proposed Rule Change by NASDAQ OMX BX, Inc. to Amend IM-4120-3, File No. SR-BX-2010-044, Exchange Act Rel. No. 62415 (June 30, 2010);
- Notice of Filing of a Proposed Rule Change by The NASDAQ Stock Market LLC to Amend NASDAQ Rule 4120(a)(11) to Add Securities Included in the Russell 1000® Index (“Russell 1000”) and Specified Exchange Traded Products (“ETP”) to the Pilot Rule, File No. SR-NASDAQ-2010-079, Exchange Act Rel. No. 62414 (June 30, 2010);

- Notice of Filing of a Proposed Rule Change to Include Additional Securities in the Trading Halt Pilot Program Under Exchange Rule 11.20B, File No. SR-NSX-2010-08, Exchange Act Rel. No. 62410 (June 30, 2010);
- Notice of Filing of Proposed Rule Change by New York Stock Exchange LLC Amending Rule 80C to Add Additional Securities to the Pilot Rule, File No. SR-NYSE-2010-49, Exchange Act Rel. No. 62411 (June 30, 2010);
- Notice of Filing of Proposed Rule Change by NYSE Amex LLC Amending NYSE Amex Equities Rule 80C to Add Additional Securities to the Pilot Rule, File No. SR-NYSEAmex-2010-63, Exchange Act Rel. No. 62412 (June 30, 2010);
- Notice of Filing of Proposed Rule Change by NYSE Arca, Inc. Amending NYSE Arca Equities Rule 7.11 to Add Additional Securities to the Pilot Rule, File No. SR-NYSEArca-2010-61, Exchange Act Rel. No. 62413 (June 30, 2010).