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July 20, 2010

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

**Re: Comments Regarding Rule Filings for Clearly Erroneous Executions;  
Release No. 62340 (File No. SR-BATS-2010-016)**



GETCO

Dear Ms. Murphy:

Global Electronic Trading Company (“GETCO” or “Firm”) appreciates the opportunity to comment on rule filings by the national securities exchanges and the Financial Industry Regulatory Authority (“FINRA”) designed to clarify the process for breaking clearly erroneous trades.<sup>1</sup> GETCO supports the recent initiatives by the exchanges, FINRA, and the Securities and Exchange Commission (the “Commission”) to strengthen market integrity.

## **I. Introduction**

GETCO is a leading electronic trading and technology firm providing liquidity on over 50 markets in North and South America, Europe, and Asia. We are a registered market maker on various equity and option exchanges and a Designated Market Maker (DMM) and Supplemental Liquidity Provider (“SLP”) on the New York Stock Exchange (“NYSE”).<sup>2</sup> From offices in Chicago, New York, London, and Singapore, the firm transacts business in cash and futures products across four

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<sup>1</sup> See Securities Exchange Act Rel. No. 62330 (SR-ISE-2010-62); Securities Exchange Act Rel. No. 62331 (SR-NSX-2010-07); Securities Exchange Act Rel. No. 62332 (SR-NYSEAmex-2010-60); Securities Exchange Act Rel. No. 62333 (SR-NYSE-2010-47); Securities Exchange Act Rel. No. 62334 (SR-NASDAQ-2010-076); Securities Exchange Act Rel. No. 62335 (SR-NYSEArca-2010-58); Securities Exchange Act Rel. No. 62336 (SR-CHX-2010-13); Securities Exchange Act Rel. No. 62337 (SR-CBOE-2010-056); Securities Exchange Act Rel. No. 62338 (SR-EDGA-2010-03); Securities Exchange Act Rel. No. 62339 (SR-EDGX-2010-03); Securities Exchange Act Rel. No. 62340 (File No. SR-BATS-2010-016); Securities Exchange Act Rel. No. 62341 (SR-FINRA-2010-032); Securities Exchange Act Rel. No. 62342 (SR-BX-2010-040).

<sup>2</sup> Registered Equity Market Maker: Nasdaq, NYSE Arca, and BATS; Designated Market Maker and Supplemental Liquidity Provider: NYSE; Registered Option Market Maker: Chicago Board Options Exchange, Nasdaq Options Market, BATS Options, and NYSE Arca Options.

asset classes – equities, fixed income, currencies and commodities. We also provide investors with access to dedicated liquidity through an Alternative Trading System (“ATS”), GETCO Execution Services, or GES. GETCO’s primary trading strategy is market making—posting two sided markets—to help investors efficiently transfer the risk commonly associated with assets such as stocks, bonds, commodities and options contracts. Our trading strategies employ advanced technology, real time information, transparent risk management systems and continuous innovation.

## II. Discussion

Under the current “clearly erroneous execution rules” adopted by exchanges there is a threshold beyond which erroneous trades *may* be broken but there is not a clearly defined standard among the exchanges used for breaking erroneous trades once the threshold has been reached. Exchanges have discretion in choosing the specific percentage threshold away from the “reference price” at which they will break erroneous trades. In addition, the trade nullification process employed by exchanges is not transparent to market participants. As noted by the staffs of the CFTC and SEC, “[o]n May 6, the exchanges only broke trades that were more than 60 percent away from the reference price in a process that was not transparent to market participants.”<sup>3</sup>

The exchanges and FINRA have filed rule amendments with the Commission proposing a series of specific numerical thresholds<sup>4</sup> for uniformly breaking trades when prices diverge from the reference price. Under the proposal, the reference price would typically be the last sale before pricing was disrupted, but in certain circumstances the reference price would instead be the “circuit breaker trigger price.”

GETCO supports the efforts of the exchanges and FINRA to establish clearer standards for breaking trades and a more transparent nullification process. We believe these rule amendments will lead to greater clarity regarding when trades will be broken and at what prices, which will provide market participants with more certainty as to whether or not their trades will stand in the event of market volatility. GETCO does, however, suggest several additional measures we

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<sup>3</sup> *Report of the Staffs of the CFTC and SEC to the Joint Advisory Committee on Emerging Regulatory Issues, Preliminary Findings Regarding the Market Events of May 6, 2010*, p. 29, May 18, 2010.

<sup>4</sup> For stocks subject to single stock circuit breakers, trades would be broken if the price diverges from the reference price as follows: (i) 10% for stocks priced from \$0 to \$25; (ii) 5% for stocks priced from \$25.01 to \$50; and (iii) 3% for stocks priced greater than \$50.

Where circuit breakers are not yet applicable, trades would be broken at specified levels for events involving multiple stocks, depending on the number of stocks involved as follows: (i) 10% for events involving from 5 to 19 stocks; and (ii) 30% for events involving 20 or more stocks.



believe would help significantly reduce the occurrence of erroneous trades and provide market participants with even more certainty.

As noted in our April 1, 2010 comment letter regarding Risk Management Controls for Broker-Dealers, we believe it is important for market centers – exchanges and ATSS – to implement protections designed to reject clearly erroneous orders that reach them. In our June 9, 2010 comment letter regarding Market-Wide Circuit Breakers, GETCO supported a futures-style limit up/down functionality as a better alternative to the circuit breaker trading halt approach. We reiterate our support for trading limits. One of the reasons we support a trading limit approach over a circuit breaker trading halt is that it would virtually eliminate clearly erroneous trades from occurring. Once a trading limit goes into effect, executions could not occur outside of an acceptable pre-set range.



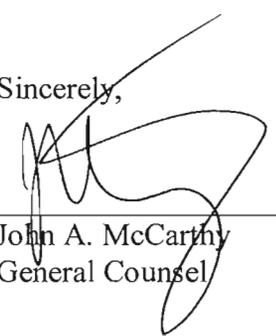
GETCO

In the absence of trading limits, we support market centers adopting a reasonable “adjust only” policy (where practical) regarding the handling of erroneous transactions. There is tremendous risk created in the system for many market participants when an erroneous trade occurs because the transaction creates uncertainty regarding each firm’s overall position. This uncertainty is even more problematic during periods of heightened volatility in the markets, when liquidity may be reduced as some market participants limit their trading until they are able to determine their positions, or volatility may increase further because of speculative hedging in an attempt to protect unknown positions. The adoption by the exchanges of an “adjust only” policy would serve to reduce such instances of widespread position uncertainty amongst market participants, which would limit the negative impact of erroneous orders on the market.

### **III. Conclusion**

GETCO appreciates the opportunity to submit these comments. Please do not hesitate to contact us at (312) 931-2200 if you have any questions regarding any of the comments provided in this letter.

Sincerely,



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John A. McCarthy  
General Counsel