Dear Secretary Murphy:

This letter is submitted on behalf of Business Roundtable, an association of chief executive officers of leading U.S. companies with more than $6 trillion in annual revenues and nearly twelve million employees. Member companies comprise nearly a third of the total value of the U.S. stock markets and represent nearly 60% of all corporate income taxes paid to the federal government. Business Roundtable companies give more than $7 billion a year in combined charitable contributions, representing nearly 60% of total corporate giving. They are technology innovation leaders, with more than $111 billion in annual research and development spending — nearly half of all total private R&D spending in the U.S.

Business Roundtable appreciates the opportunity to comment on Securities Exchange Act Releases Nos. 62126 and 62129, in which the New York Stock Exchange (NYSE) and the NASDAQ Stock Market LLC (Nasdaq), respectively, propose to adopt rules to provide trading pauses for individual stocks that are a component of the S&P 500 Index when the price in any such stock moves 10 percent or more.1

We commend the Securities and Exchange Commission (SEC) for its review of, and action in response to, the trading events of May 6, 2010 and its joint work with the Commodity Futures Trading Commission (CFTC). The proposed uniform, market-wide circuit breakers that would trigger a trading pause when the price of a stock included in the S&P 500 Index moved 10 percent or more within a five-minute period is a step in the right direction. Yet we believe more work remains, and we urge the SEC to coordinate with the Financial Industry Regulatory Authority and the other self-regulatory organizations to expand the circuit breaker rules to stocks beyond the S&P 500.

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While we recognize the efficiency of choosing the stocks in the S&P 500 as a proxy for active stocks for which a 10% threshold is appropriate, we believe that this list excludes stocks whose trading is similar to the stocks in the S&P 500 and these that would clearly benefit from inclusion in the pilot. As noted in the SEC’s report on the May 6 episode, severe drops in prices affected many companies’ stocks that day, including the stocks of companies outside the S&P 500. Many of the most aberrational prices involved short sales. We urge that the pilot be expanded to include a wider range of companies and in particular those companies whose securities suffered aberrational prices. If not included in the pilot, these companies’ stocks may experience liquidity events and aberrational pricing that do not affect comparable stocks included in the pilot, creating the impression that these stocks are more susceptible to sudden severe price changes. Moreover, investors could be confused about what rules apply to which stocks and how to protect themselves when trading.

Companies need protection from collapses in liquidity irrespective of capitalization size or trading activity. For this reason, we believe that ultimately the trading halts should apply to all publicly traded stocks. At a minimum, we believe that stocks of issuers with financial and trading characteristics comparable to the S&P 500 should be subject to the same 10% threshold as the S&P 500. We recognize that the 10% threshold may not be appropriate for all publicly traded stocks but believe that an appropriate threshold could be determined. We believe that excluding comparable companies from the pilot would leave them exposed to liquidity gaps and short-selling and could divert selling pressure from more actively-traded stocks to these unprotected securities.

We would welcome the opportunity to discuss our comments. Please contact Larry Burton, Executive Director of Business Roundtable, at (202) 872-1260.

Sincerely,

Alexander M. Cutler
Chairman and Chief Executive Officer of Eaton Corporation
Chair, Business Roundtable Corporate Leadership Initiative

C: The Honorable Mary L. Schapiro, Chairman
   The Honorable Kathleen L. Casey, Commissioner
   The Honorable Elisse B. Walter, Commissioner
   The Honorable Luis A. Aguilar, Commissioner
   The Honorable Troy A. Paredes, Commissioner
   Mr. Robert Cook, Director, Division of Trading & Markets