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October 27, 2011

By Electronic Mail (rule-comments@sec.gov)

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

Re: Proposed Rule Changes to Update Trading Halts Due to Extraordinary Market Volatility: SR-NYSE-2011-48, SR-NASDAQ-2011-131, SR-FINRA-2011-054, SR-BATS-2011-038, SR-BYX-2011-025, SR-C2-2011-024, SR-CBOE-2011-087, SR-CHX-2011-30, SR-EDGA-2011-31, SR-EDGX-2011-30, SR-ISE-2011-61, SR-BX-2011-068, SR-Phlx-2011-129, SR-NSX-2011-11, SR-NYSEAMEX-2011-73, SR-NYSEArca-2011-68

The Securities Industry and Financial Markets Association ("SIFMA")[1] appreciates the opportunity to comment on proposals of the Financial Industry Regulatory Authority ("FINRA"), New York Stock Exchange ("NYSE"), Nasdaq Stock Market ("Nasdaq") and other self-regulatory organizations ("SROs") to modify their rules relating to the methodology for determining when to halt trading in all stocks due to extraordinary market volatility (the "Proposed Rules").[2] As discussed below, SIFMA has long advocated adjustment of the current market-wide circuit breakers

[1] SIFMA brings together the shared interests of hundreds of securities firms, banks and asset managers. SIFMA's mission is to support a strong financial industry, investor opportunity, capital formation, job creation and economic growth, while building trust and confidence in the financial markets. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association ("GFMA"). For more information, visit www.sifma.org.

[2] Exchange Act Release No. 65427 (September 28, 2011)(proposed amendment of NYSE Rule 80B); Exchange Act Release No. 65435 (September 28, 2011)(proposed amendment of Nasdaq Stock Market LLC Rule 4121); Exchange Act Release No. 65430 (September 28, 2011)(proposal to amend FINRA Rules 6121 and 6440); Exchange Act Release No. 65437 (September 28, 2011)(proposed amendment of BATS Rule 11.18); Exchange Act Release No. 65429 (September 18, 2011)(proposed amendment of BATS Y Rule 11.18); Exchange Act Release No. 65433 (September 28, 2011)(proposed amendment of C2 Options Exchange Rule 6.32.03); Exchange Act Release No. 65438 (September 28, 2011)(proposed amendment of CBOE Rule 6.3B); Exchange Act Release No. 65426 (September 28, 2011)(proposed amendment of Article 20, Rule 2 of Chicago Stock Exchange rules); Exchange Act Rule 65431 (September 18, 2011)(proposed amendment of Rule 11.14 of EDGA rules); Exchange Act Release No. 65440 (September 18, 2011)(proposed amendment of Rule 11.14 of EDGX rules); Exchange Act Release No. 65425 (September 18, 2011)(proposed amendment of International Securities Exchange Rule 2102(g)); Exchange Act Rule 65428 (September 28, 2011)(proposed amendment of Rule 4121 of Nasdaq OMX BX rules); Exchange Act Rule 65434 (September 28, 2011)(proposed amendment of Rule 133 of Nasdaq OMX PHLX rules); Exchange Act Release No. 65436 (September 28, 2011)(proposed amendment of National Stock Exchange Rule 11.20); Exchange Act Release No. 65432 (September 28, 2011)(proposed amendment of NYSE Amex Rule 80B); Exchange Act Release No. 65439 (September 28, 2011)(proposed amendment of Rule 7.12 of NYSE Arca rules).

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and commends the SROs for their efforts to modernize the circuit breakers.[3] Combined with prior SRO initiatives to address extraordinary market volatility – stock-by-stock trading pauses, the adoption of clearly erroneous trading rules, and more stringent market maker requirements – and the anticipated adoption of the SROs' Limit-Up/Limit-Down rule proposal – the Proposed Rules will help address extraordinary market volatility. Thus, we support the Proposed Rules as a general matter, and suggest a few modifications to enhance their effectiveness.

As noted by the Commission, "circuit breakers are intended to enable market participants to establish an equilibrium between buying and selling interest and to ensure that market participants have an opportunity to become aware of and respond to significant price movements."[4] The current market-wide circuit breakers, which were adopted in 1988, are triggered by specified thresholds of changes in the Dow Jones Industrial Average ("DJIA"). Once triggered, the circuit breakers mandate temporary halts in trading of varying duration, based on the particular threshold triggered. Although the market-wide circuit breakers were amended over time, and the thresholds are recalculated quarterly, the circuit breakers were not triggered by the extraordinary market events of May 6, 2010, resulting in their reconsideration by the SROs and issuance of the Proposed Rules. In fact, the market-wide circuit breakers have been triggered only once since their original adoption.

The Proposed Rules would modify the current circuit breakers by: (i) reducing the market decline percentage triggering thresholds from 10, 20, and 30 percent to 7 ("Level 1 Market Decline"), 13 ("Level 2 Market Decline"), and 20 ("Level 3 Market Decline") percent from the prior day's closing price; (ii) shortening the duration of trading halts (other than halts that close the market for the day) from 30, 60 or 120 minutes, to 15 minutes in all cases; (iii) reducing the relevant triggering time periods from six to two – triggers occurring before 3:25 p.m., and those occurring on or after 3:25 p.m.; (iv) using the broader S&P 500 Index as the pricing reference for measuring a price decline, rather than the DJIA; and (v) providing that the triggering thresholds be recalculated daily rather than quarterly. The SROs would halt trading for 15 minutes based on a Level 1 or a Level 2 Market Decline between 9:30 a.m. and 3:25 p.m. (or, in the case of an early scheduled close, 12:25 p.m.). The SROs would halt trading based on a Level 1 or Level 2 Market Decline only once per day. After a halt, trading would recommence upon the resumption of trading by the primary market, provided that if the primary market does not re-open a security within 15 minutes following the end of a trading halt, other markets may resume trading the security. In the event of a Level 3 Market Decline, all trading in NMS stocks and OTC equity securities would be halted until the primary market opened the next trading day.

The Rule Proposals ask, among other things, whether the market-wide circuit breakers should be triggered if a sufficient number of single stock circuit breakers or price limits are triggered (i.e., even if the triggers for the market-wide circuit breakers are not met). SIFMA believes that such an approach would make sense given the difficulty of accurately calculating the value of the S&P 500 Index in such circumstances. For example, the triggering of single stock circuit breakers in five percent or more of the S&P 500 Index names could impact the measure of the performance of the overall index. We encourage the SEC staff to consider whether, based on its assessment of empirical data regarding the impact that single stock circuit breakers may have on measurement of the

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[3] *See* Letter from Ann L. Vlcek, Managing Director and Associate General Counsel, SIFMA, to Elizabeth Murphy, Secretary, Securities and Exchange Commission, re: SEC Market Structure Roundtable (June 25, 2010).

[4] *See, e.g.,* Exchange Act Release No. 65430 (September 28, 2011).

performance of the index, this percentage is appropriate or another percentage should be used. A 15-minute trading halt in such instances would help market participants appropriately adjust their buying and selling interest. While SIFMA does not believe that the Proposed Rules need to be adopted at the same time as the Limit-Up/Limit-Down proposals, the triggering thresholds for the two mechanisms for controlling extraordinary volatility obviously will need to be coordinated so that they will work well together.

SIFMA believes that coordination of the market-wide circuit breakers is critical not only among equity markets, but also with respect to options and futures markets. In this regard, SIFMA understands that, under the Proposed Rules of the options exchanges, for options overlying stocks, all markets will halt trading in options on those stocks when a market-wide circuit breaker is initiated for such stocks. Similar to the Proposed Rules of the equity exchanges, trading will resume when the primary listing market has resumed trading in the stock, provided that if the primary market does not re-open trading within 15 minutes following the end of a trading halt, other markets may resume trading in options on that stock if at least one other market has resumed trading in the stock. For stock index options, the options exchanges propose that if a circuit breaker is initiated in all stocks, all options markets will halt trading in such indexes and may resume trading in such options anytime after the 15-minute halt period.[5]

Similarly, in light of the demonstrated interconnectedness of the trading in the securities and futures markets, SIFMA believes that any new standards set forth in the Proposed Rules must be coordinated with trading halt rules in the futures markets. Currently, the CME trading halt rules are designed to coordinate with the circuit breaker provisions of the primary securities markets.[6] We understand that the CFTC similarly has requested comment with respect to the use of trading pauses and halts by Designated Contract Markets as effective risk management tools.[7] Without changes in the futures market that are similar to and coordinated with the Proposed Rules, the effectiveness of the Proposed Rules will be seriously undermined.

Finally, SIFMA believes that the Proposed Rules should specify the status of orders during a market wide circuit breaker. Specifically, we believe that orders pending with a market center at the time that a Level 1 or Level 2 circuit breaker is triggered should remain queued by the market center during the trading halt and subsequently be eligible for execution after the trading halt. Orders pending when a Level 3 circuit breaker goes into effect should be cancelled since trading will cease for the remainder of the day. SIFMA believes that this approach will avoid client confusion and unnecessary delays in reentering orders during temporary, intraday trading halts.

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[5] *See* Exchange Act Release No. 65438 (September 28, 2011)(proposed amendment to CBOE Rule 6.3B). The CBOE rule proposal most clearly sets forth how the options exchanges intend to handle trading in the options markets when a market-wide circuit breaker has been triggered. We recommend that other options exchanges clarify that trading in their markets will be handled in the same, uniform manner.

[6] *See, e.g.*, CME Equity Price Limit FAQ (available at http://www.cmegroup.com/trading/equity-index/files/PriceLimitFAQ.pdf).

[7] CFTC Notice of Proposed Rulemaking, Core Principles and Other Requirements for Designated Contract Markets. 75 Fed. Reg. 245, 80572, 80614 (proposal to require designated contract markets to establish risk controls to reduce the risk of market disruptions, including the use of pauses and trading halts).

SIFMA appreciates the opportunity to comment on the proposed modifications to the market-wide circuit breaker rules. We generally support the Proposed Rules, and believe that they represent yet another important step toward addressing extraordinary market volatility. We encourage the SROs to modify the Proposed Rules as noted above, which would make the circuit breakers more effective in meeting their intended purpose. We look forward to discussing the Proposed Rules and our comments with the Commission, its staff and the SROs. If you have any comments or questions, please do not hesitate to contact me at 202-962-7300 or avlcek@sifma.org.

Sincerely,

Ann L. Vlcek

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