February 7, 2012

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

Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

Re: File Numbers SR-BATS-2011-038; SR-BYX-2011-025; SR-BX-2011-068; SR-CBOE-2011-087; SR-C2-2011-024; SR-CHX-2011-30; SR-EDGA-2011-31; SR-EDGX-2011-30; SR-FINRA-2011-054; SR-ISE-2011-61; SR-NASDAQ-2011-131; SR-NSX-2011-11; SR-NYSE-2011-48; SR-NYSEAmex-2011-73; SR-NYSEArca-2011-68; SR-Phlx-2011-129; Order Instituting Proceedings To Determine Whether To Disapprove Proposed Rule Changes Relating to Trading Halts Due to Extraordinary Market Volatility

Dear Ms. Murphy:

The Securities Industry and Financial Markets Association ("SIFMA")[1] appreciates the opportunity to provide the Securities and Exchange Commission (the "Commission" or the "SEC") with comments to its order instituting proceedings to determine whether to disapprove the proposals by 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]

---

[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. 66065 (December 28, 2011) (Order Instituting Proceedings to Determine Whether to Disapprove Proposed Rule Changes Relating to Trading Halts Due to Extraordinary Market Volatility) ("Disapproval Order").

SIFMA submitted on October 27, 2011 comments related to the SROs' proposals dated September 27, 2011.[3] As stated in our comment letter, SIFMA has long advocated adjustment of the current market-wide circuit breakers and commended the SROs for their efforts to modernize them. SIFMA believes that the Proposed Rules, combined with prior SRO initiatives to address extraordinary market volatility, will help address extraordinary market volatility.

Also as noted in the October comment letter, SIFMA supports the Proposed Rules as a general matter but recommended certain modifications to enhance their effectiveness. Specifically, we recommend that market-wide circuit breakers be triggered if a sufficient number of single stock circuit breakers or price limits are triggered. In addition, while we do not believe that the Proposed Rules need to be adopted at the same time as the SROs' proposals for a "limit up/limit down" mechanism, we recommend that the triggering thresholds for the two mechanisms for controlling extraordinary volatility be coordinated so that they will work well together. Further, we suggest that any new standards set forth in the Proposed Rules be coordinated with trading halt rules in the futures markets, or the effectiveness of the Proposed Rules will be seriously undermined. Lastly, we strongly believe that in all cases we allow for a closing process to be run at the end of the day.

In its Disapproval Order, the Commission discussed the comments received on the Proposed Rules and invited interested persons to provide additional comments, particularly on certain aspects of the Proposed Rules. In response to this request, SIFMA provides in Appendix A additional comments on the Proposed Rules that supplement our original comments. In Appendix B, SIFMA provides commentary regarding the importance of coordination with the derivatives markets. SIFMA hopes that these additional comments will contribute to the Commission's deliberations on these important proposals, and serve to protect investors and the public interest.

* * * * *

---

3 *See* Letter from Ann L. Vlcek, Managing Director and Associate General Counsel, SIFMA, to Elizabeth Murphy, Secretary, Securities and Exchange Commission, re: Proposed Rule Changes to Update Trading Halts Due to Extraordinary Market Volatility (October 27, 2011), *available at* http://www.sifma.org/issues/item.aspx?id=8589936141.

SIFMA appreciates the opportunity to provide additional comments on the SROs' proposed modifications to the market-wide circuit breaker rules. If you have any comments or questions, please do not hesitate to contact me at 202-962-7300 or avlcek@sifma.org.

Sincerely,

/s/ Ann L. Vlcek

Ann L. Vlcek
Managing Director and
Associate General Counsel

cc: Mary L. Schapiro, Chairman
Luis A. Aguilar, Commissioner
Troy A. Paredes, Commissioner
Elisse B. Walter, Commissioner
Daniel J. Gallagher, Commissioner
Robert W. Cook, Director, Division of Trading and Markets
David Shillman, Associate Director, Division of Trading and Markets
Daniel Gray, Market Structure Counsel, Division of Trading and Markets

APPENDIX A

SRO Market-Wide Circuit Breaker Proposals:

SEC Disapproval Order Questions[1] and SIFMA Comments

Questions Raised in SEC's Disapproval Order	SIFMA Comments
1. The proposed rule change would narrow the percentage market declines that would trigger a market-wide halt in trading. How would the proposed changes interact with the existing single-stock circuit breaker pilot program[2] or, if approved, the proposed NMS Plan to establish a limit-up/limit-down mechanism for individual securities?[3]	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 will need to be coordinated so that they will work well together.[4] Suggestions to improve this coordination are made below.
2. Should the market-wide circuit breaker be triggered if a sufficient number of single-stock circuit breakers or price limits are triggered?	Yes. SIFMA believes that such an approach makes sense given the difficulty of accurately calculating the value of the S&P 500 index in such circumstances. We encourage the SEC staff to consider, based on its assessment of empirical data regarding the impact that single-stock circuit breakers may have on measurement of the performance of the index, what parameters would be appropriate for a 15-minute market-wide trading halt.

---

1 *See* Exchange Act Release No. 66065 (December 28, 2011) (Order Instituting Proceedings to Determine Whether to Disapprove Proposed Rule Changes Relating to Trading Halts Due to Extraordinary Market Volatility).

2 *See* Exchange Act Release No. 66136 (January 11, 2012) (Extension of Pilot Program to July 31, 2012).

3 *See* Letter from Janet M. McGinness, Senior Vice President and Corporate Secretary, NYSE Euronext, to Elizabeth Murphy, Secretary, Securities and Exchange Commission, re: Requesting Commission to Extend Deadline on Proposals Until February 29, 2012 (November 18, 2011).

4 *See* Letter from Ann L. Vlcek, Managing Director and Associate General Counsel, SIFMA, to Elizabeth Murphy, Secretary, Securities and Exchange Commission, re: Proposed Rule Changes to Update Trading Halts Due to Extraordinary Market Volatility (October 27, 2011).

<table>
<tr><th>Questions Raised in SEC's Disapproval Order</th><th>SIFMA Comments</th></tr>
<tr><td></td><td>SIFMA's suggested alternatives for these parameters:

A. There should be an additional MWCB trigger when both of the following occur:
o 5% (or 25) of the securities in the S&P 500 are in a limit down state or halted; and
o 10% of the market weighting of the SPX is in a limit down state or halted.

Both of these criteria should be in place concurrently to trigger a MWCB because:
o if only 5% of the names are simultaneously halted but they are in smaller names that represent little overall weight in the index, then the index value would, for the most part, remain intact and a broad market sell-off scenario would be unlikely; and
o if only 10% of the market cap of the index was in halt mode but this resulted from a very small number of securities, then the operational challenges would not be significant enough to warrant a MWCB and it would also be less likely that a broad market sell-off was underway.

B. Or, and particularly if the above proposal is too difficult for the SIP to execute: if 10% of the S&P 100 are in a limit state or halted, then there would be a Level 1 MWCB. This may be the simpler and more expedient design.

C. Given concerns regarding the additional volatility during the opening and closing periods of the day, we would further suggest that these suggested parameters be doubled immediately after the</td></tr>
</table>

Questions Raised in SEC's Disapproval Order	SIFMA Comments
	opening and immediately preceding the close, i.e., using the same opening and closing periods used for the construction of the limit-up/limit-down rules. Note: S&P weightings would be easier and better than using market cap, as these are published by S&P on a daily basis and better reflect the opening interest (float) in the marketplace. Note: If the MWCB and limit-up/limit-down proposals have different stop times (3:25 pm vs. 3:35 pm), they should be made consistent. Also, our preference is to always ensure the markets can perform a closing process even if it has to be after 4:00 pm. Overall: It is important to have a consistent and easily understandable rule.
3. Should market centers implement rules that mandate cancellation of pending orders in the event a market-wide circuit breaker is triggered? If so, should such a rule require cancellation of all orders or only certain order types (e.g., limit orders)? Should all trading halts trigger such cancellation policies or should the cancellation policies apply only to a Level 3 Market Decline?	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 if trading will cease for the remainder of the day. SIFMA believes that this approach is reasonable and will avoid client confusion and unnecessary delays in reentering orders during temporary, intra-day trading halts.

Questions Raised in SEC's Disapproval Order	SIFMA Comments
4. In the event of a Level 3 Market Decline, should some provision be made for the markets to hold a closing auction?	SIFMA strongly advocates that there be a closing process/auction. There are many market processes that depend on a valid closing price. For instance, the options market in particular will be severely hit. The options market cannot unwind if there is no closing auction. Exchanges should have the flexibility to determine what kind of closing process to run after 4:00 pm; however, we believe it should take place as early as possible (4:15 or 4:30 pm is preferable).
5. Should some provision be made to end the regular trading session if a market decline suddenly occurs after 3:25 p.m. but does not reach the 20% level?	SIFMA believes that we should not wait for the 20% level, as that has happened only once in our markets. SIFMA believes that a 13% level should be used after 3:25 (or 3:35) pm. This more narrow end of day price band is suggested with the expectation that (and only if this is the case), if such a MWCB were to occur, the primary markets would hold an end of day closing auction.
6. Should the primary market have a longer period (e.g., 30 minutes) to reopen trading following a Level 2 Market Decline before trading resumes in other venues?	SIFMA believes the market can reopen in the shorter time period, but there should be some flexibility by the primary markets. Perhaps if the pre-open indications are looking like they will open more than 10% down, then they can extend the delay another 15 minutes.
7. Additional views on intra-day reopenings.	We have learned in the course of observing single-stock circuit breakers that market participants are generally not geared towards efficiently participating in intra-day reopenings. As a result, SSCB reopenings have often been inadequate in their price discovery function. We are concerned that there may be similar inefficiencies following an intra-day

Questions Raised in SEC's Disapproval Order	**SIFMA Comments**
	MWCB. We suggest that the re-opening process, following a MWCB, should follow as much as possible the normal procedures and timing that occur when opening stocks at the beginning of the day.
8. Views on the need for coordination across markets.	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. (See Appendix B for additional views regarding the importance of coordination among markets.)

APPENDIX B

SRO Market Wide Circuit Breaker Proposals:

Additional SIFMA Comments re: Coordination Among Markets

With respect to cash settled index products where a trading halt would remain in effect throughout the remainder of the trading day and exercise and assignments could occur without the ability to roll or unwind stock hedges, the present proposal could result in billions of "decoupled" dollars if a disconnection between stock unwind prices and derivative settlement values occurs. This is a daily concern that exponentially rises for the quarterly futures expiration cycle, monthly options cycle and the cash settled "weeklies."

Unless there is operational coordination and regulatory synchronization between the equities and futures markets, market participants in cash settled index options would be at risk of carrying large and unhedgeable positions in the event of trading halts in index components prior to expiration. If an index component trips a circuit breaker which halts trading for the remainder of the trading day, the index value calculations may become unreliable, perhaps so much so that market participants will withdraw liquidity, further exacerbating the market volatility that circuit breakers are intended to smooth.

The derivative markets always have been aware of the possibility of a disconnect, but under the current proposal the possibility of such a disconnect is much greater – which of course raises the concern considerably. Thus, there is a greater need for certainty in how exchanges will react if such a disconnect occurs and how well they coordinate their actions. Currently, although the exchanges have adopted provisions for postponing settlements in extraordinary situations, the rules are not standardized and do not give a clear direction of what to expect. For example, CME Rule 35103 provides for executive discretion over S&P 500 settlements in response to extraordinary circumstances. However, for this discretion to be meaningfully exercised, it must be exercised in concert with other DCMs and SROs and clearinghouses.

In its October 25, 2011 comment letter to the Commission, the CME stressed the importance of coordination among the securities and futures markets regarding circuit breakers and trading halts. The letter did not, however, address market participants' exposure in a scenario where cash settled index products halt trading for the remainder of the day while multiple components of the index are halted. In order to provide certainty to market participants, the exchanges' rulebooks must be harmonized and the exchanges and regulatory agencies must be given adequate direction to act according to clearly defined rules regarding settlements in these situations.

For example, as currently written, ICE Futures US Rule 19.09 ("Exercise Of Options") states that Russell Complex product options will be automatically exercised if they are "In The

Money" with respect to the daily settlement price rather than versus the Final Settlement Price ("FSP") if issuance of a FSP is delayed. This means, essentially, that cash settled options may be deemed in (or out) of the money and exercised based on a provisional price.

Similarly, OCC Rule 1805 ("Exercise Settlement Date For Cash Settled Options") allows (but does not require) the OCC Board of Directors to extend or postpone the settlement date for cash settled options "whenever…such action is required in the public interest, or to meet unusual conditions."

Allowing regulators discretion to deal with unexpected circumstances is important. Equally important are rules which will provide certainty to market participants with respect to settlement procedures. Possible mechanisms for this certainty could be a mandatory settlement postponement, a closing auction for each halted security, or a rule-based assurance that trading in the halted securities would resume in some fashion prior to the end of the trading day. Whatever mechanism is chosen, some rule-based assurance of consistency must be built into whatever circuit breakers are finally put into place.