

**MEMO# 24364**

June 14, 2010

# **ICI Comment Letter on Single Stock Circuit Breakers**

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TO: SEC RULES MEMBERS No. 53-10  
EQUITY MARKETS ADVISORY COMMITTEE No. 22-10  
ETF (EXCHANGE-TRADED FUNDS) COMMITTEE No. 16-10  
ETF ADVISORY COMMITTEE No. 24-10  
CLOSED-END INVESTMENT COMPANY MEMBERS No. 30-10 RE: ICI COMMENT LETTER ON  
SINGLE STOCK CIRCUIT BREAKERS

The Institute has filed the attached comment letter with the Securities and Exchange Commission on the proposed single stock circuit breakers filed by the national securities exchanges and the Financial Industry Regulatory Authority ("FINRA") in response to the market events of May 6, 2010. The letter strongly supports single stock circuit breakers. At the same time, the letter states that while the proposed circuit breakers are a meaningful first step, other inefficiencies in our current market structure highlighted by the events of May 6 also must be addressed without delay. Specifically, there is an immediate need to examine: (1) procedures for resolving "clearly erroneous" trades; (2) the use of market orders; (3) the inconsistent practices employed by exchanges to address major price movements in stocks; and (4) the lack of coordination across markets in the event of a market disruption.

## **I. Circuit Breaker Proposals**

The letter states that, at this time, and without sufficient data or experience to fully assess the operation of the proposed circuit breaker in times of market stress, the Institute does not have a definitive view whether the proposed parameters of the circuit breaker will accomplish the SEC's goal of addressing temporary and severe dislocations in the securities markets. The letter supports the SEC's approach of using the pilot period to make adjustments to the parameters or operation of the circuit breaker and urges the SEC to work closely with all market participants throughout the pilot program to resolve any issues that may arise relating to the implementation of the circuit breaker.

## **II. Inclusion of Exchange-Traded Funds in Circuit Breaker Pilot**

The letter notes that the May 6 market events impacted both individual securities and ETFs. Specifically, as a result of the severe market decline, many trades were cancelled according to the securities markets' rules which provide the various securities exchanges with the ability to cancel trades effected at prices that are sharply divergent from prevailing market prices. ETF trades comprised a majority of the cancelled trades.

Given the impact on ETFs of the market events on May 6, the letter states that it is imperative that ETFs be included in the circuit breaker pilot program as soon as possible. The letter explains that if circuit breakers exist for individual securities contained in an ETF's basket, but not for the ETFs themselves, ETFs could again suffer disproportionately during a market event similar to that of May 6. The letter states that of immediate concern is the initial pilot program's failure to include ETFs that track the S&P 500 or other indices with substantially overlapping securities. The letter therefore urges the SEC to include these ETFs in the pilot program, as soon as possible. Also, as additional stocks are added to the circuit breaker pilot, the letter recommends that ETFs containing those securities should be added at the same time. Finally, the letter states that while it is appropriate for the pilot program to apply the same circuit breaker triggers to ETFs initially, the Institute urges the SEC and exchanges to use the pilot program to consider whether a different trigger is appropriate for ETFs.

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[Attachment](#)

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