

MEMO# 8615

February 5, 1997

APPROVAL OF NYSE PROPOSAL TO AMEND CIRCUIT BREAKER PROCEDURES

1 For example, the CFTC approved a proposed rule change by the Chicago Mercantile Exchange to increase the circuit breaker triggers on the S&P 500 futures contract to 45 and 70 points, respectively. February 5, 1997 TO: ACCOUNTING/TREASURERS COMMITTEE No. 3-97 SEC RULES COMMITTEE No. 14-97 RE: APPROVAL OF NYSE PROPOSAL TO AMEND CIRCUIT BREAKER PROCEDURES

The Securities and Exchange Commission recently approved a rule proposal by the New York Stock Exchange, Inc. ("NYSE") to amend its circuit breaker procedures. The circuit breaker procedures were implemented in 1988 in order to provide market participants with an opportunity to reestablish an equilibrium between buying and selling interest during times of extreme market movements. The recent amendments increase the magnitude of the decline required to trip the circuit breakers. A copy of the SECs adopting release is attached. Under the amended procedures, if the Dow Jones Industrial Average ("DJIA") declines by 350 points, trading on the NYSE will be halted for one-half hour. Thereafter, trading would halt for an additional hour if on that same day the DJIA declined 550 points. The original circuit breaker rules adopted in 1988 provided for trading halts in the event of 250 and 400 point declines in the DJIA. The adopting release notes that all U.S. stock and options exchanges, as well as the NASD, have submitted revised circuit breaker procedures reaffirming their commitment to halt trading whenever circuit breakers are triggered. Further, the futures exchanges have also adopted amended procedures to maintain the coordinated nature of the circuit breakers.¹ At the time the circuit breaker procedures were originally adopted, the 250 and 400 point trigger levels represented one day declines of approximately 12% and 19%, respectively. In approving the NYSE proposal, the SEC noted that the DJIA has tripled since 1988 and that the original triggers represent declines of approximately 3.7% and 6.0% respectively. The adopting release notes that the market rise necessitates increases in the circuit breaker trigger levels so as to prevent their unnecessary application. Gregory M. Smith Director - Operations/ Compliance & Fund Accounting Attachment (in .pdf format)