

MEMO# 10806

March 17, 1999

DRAFT ICI LETTER TO NASD ON NASDAQ TRADING HALTS

[10806] March 17, 1999 TO: EQUITY MARKETS ADVISORY COMMITTEE No. 5-99 RE: DRAFT ICI LETTER TO NASD ON NASDAQ TRADING HALTS

_____ At a meeting later this month, the NASD Board of Directors is expected to consider whether to submit a rule proposal to the SEC that would allow Nasdaq to impose volatility trading halts. Attached for your review is a draft letter to the NASD in opposition to such a proposal. As many of you are aware, this matter was considered by a subcommittee of the Quality of Markets Committee as well as by the full Committee, both of which overwhelmingly voted against it. The ICI's draft letter expresses strong opposition to the halts for several reasons. First, the existence of trading halts may serve to exacerbate rather than dampen volatility. Second, trading halts would be problematic on Nasdaq, as Nasdaq has no formal procedures to reopen trading in a security. Third, the lack of procedures to reopen a security pose particular problems for mutual funds that need to price their portfolios daily. Finally, it is inappropriate to use trading halts as a means to minimize the risks inherent in market orders. Instead, regulators and market participants should take steps to educate investors about the risk that when they place a market order it may be executed at a price that is different from the one they anticipated, and to explain that limit orders can help protect them against that risk. We plan to submit the attached letter to the NASD on Friday. Therefore, please provide me with your comments by noon on Friday. My direct number is 202/371-5408 and my e-mail address is aburstein@ici.org. Ari Burstein Assistant Counsel
Attachment