

MEMO# 8091

July 26, 1996

APPROVAL OF NYSE PROPOSAL TO AMEND ""CIRCUIT BREAKER"" PROCEDURES

1See Memorandum to Accounting/Treasurers Committee No. 14-96, SEC Rules Committee No. 29-96, Equity Markets Task Force, dated May 1, 1996. July 26, 1996 TO: ACCOUNTING/TREASURERS COMMITTEE No. 32-96 SEC RULES COMMITTEE No. 80-96 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.¹ The circuit breaker procedures were implemented in 1988 in order to promote stability in the equity markets by providing for an enhanced opportunity for market participants to assess information during times of extreme market movements. A copy of the SECs adopting release is attached. Under the amended procedures, NYSE Rule 80B has been changed to shorten the trading halt following a 250 point decline in the Dow Jones Industrial Average from one hour to 30 minutes. Similarly, the trading halt following a 400 point decline has been changed from two hours to one hour. The Commission noted that in light of advances in technology and increases in the operational capacity of the markets, the shorter time periods should be sufficient to allow market participants to evaluate and act on changing market conditions without unduly constraining market activities. The NYSE had proposed that if the 250 point trigger is reached during the last half hour of trading, or if the 400 point trigger is reached during the last hour of trading, the NYSE may use abbreviated reopening procedures to establish new last sale prices. Since such transactions would take place after 4:00 p.m., the Exchange had proposed to amend NYSE Rule 51 to extend the trading session beyond the normal close to accommodate closing transactions. In response to comments by the Institute and others, the NYSE withdrew these proposed amendments. The Institutes comment letter on the rule proposal recommended that the current trading halt triggers of 250 and 400 points should be increased, because they no longer appear to be reflective of extraordinary market volatility. The letter recommended that the Commission seek comment on increasing the trading halt triggers to more appropriate levels. In the adopting release the Commission encouraged the NYSE and others to continue to evaluate the trigger levels for the trading halts in light of changing circumstances. The revised circuit breaker procedures were effective on July 22. In order to ensure that circuit breaker mechanisms are coordinated across U.S. equity, futures and options markets, the SEC and the Commodities Futures Trading Commission also approved similar rule amendments submitted by the American Stock Exchange and other markets effective July 22. Gregory M. Smith Director - Operations/ Compliance & Fund Accounting attachment

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.