

MEMO# 10826

March 23, 1999

INSTITUTE LETTER ON NASD VOLATILITY TRADING HALTS

[10826] March 23, 1999 TO: EQUITY MARKETS ADVISORY COMMITTEE No. 6-99 RE: INSTITUTE LETTER ON NASD VOLATILITY TRADING HALTS

_____ The Institute has sent a letter to the NASD expressing its strong opposition to a proposal to grant discretionary authority to senior NASD/Nasdaq management to halt trading in individual Nasdaq securities solely on the basis of the security's volatility. As a preliminary matter, the letter notes that the advisability of volatility trading halts has been separately considered by both a subcommittee of the Quality of Markets Committee and the full Committee, and that both groups overwhelmingly voted against the proposal. The letter then discusses several of the Institute's concerns regarding volatility trading halts. First, the letter notes that, in general, it has been our members' experience that trading halts serve to increase, rather than dampen, volatility. Second, the letter states that volatility trading halts would be especially problematic on Nasdaq, as Nasdaq has no formal procedures in place to re-open a stock. Third, the letter discusses how trading halts pose particular problems for mutual funds, because if a stock closed during the day does not re-open, it is unclear how funds that hold the stock would price their portfolios as required at the end of the day. Finally, the letter notes that the Institute does not believe it is appropriate to attempt to use trading halts as a means of minimizing the risks inherent in market orders or as a substitute for changes that should be made to Nasdaq trading systems. A copy of the letter, which is substantially similar to the draft letter previously circulated to the Advisory Committee, is attached. If you have any questions, please contact the undersigned by phone at (202) 371-5408 or by e-mail at aburstein@ici.org. Ari Burstein Assistant Counsel Attachment