Regulatory Notice

Trading Halts Due To Extraordinary Market Volatility

Trading Pause Rule Expanded to All NMS Stocks

Effective Date: August 8, 2011

Executive Summary

Beginning August 8, 2011, the trading pause pilot rule—currently applicable only to securities included in the S&P 500[®] Index, the Russell 1000[®] Index and a list of selected exchange-traded products (ETPs)—will be expanded to include all National Market System (NMS) stocks.

The text of the rule amendments can be found in the online FINRA Manual.

Questions regarding this *Notice* should be directed to:

- FINRA Operations at (866) 776-0800; or
- Racquel Russell, Assistant General Counsel, Office of General Counsel, at (202) 728-8363.

Background and Discussion

On June 23, 2011, the SEC approved amendments to FINRA Rule 6121 (Trading Halts Due to Extraordinary Market Volatility) (the trading pause pilot rule), along with similar amendments by other self-regulatory organizations (SROs), to expand the scope of the trading pause pilot rules to all NMS stocks.¹ Under the current trading pause pilot rule, which applies only to the securities included in the S&P 500 Index and the Russell 1000 Index, along with a list of selected ETPs, the primary market will halt or pause the trading in a stock if the price of the security has declined 10 percent or more within a rolling five-minute period.² Pursuant to Rule 6121, FINRA also will halt over-the-counter trading in that stock for the duration of the pause.³

11-37

July 2011

Notice Type

► Rule Amendment

Suggested Routing

- ► Compliance
- Legal
- Operations
- Senior Management
- Systems
- Trading and Market Making

Key Topics

- Single-Stock Circuit Breaker
- Trading Halts
- Trading Pause

Referenced Rules & Notices

- ► FINRA Rule 6121
- Regulatory Notice 10-30
- Regulatory Notice 10-43



Effective August 8, 2011, the expanded pilot will cover all remaining NMS stocks and will require a threshold move of 30 percent (or more) to trigger a trading pause for these securities where they are priced at least \$1.00,⁴ and a threshold move of 50 percent (or more) where such securities are priced less than \$1.00.

This expansion of the trading pause pilot applies the trading pause protections against excessive volatility to a wider group of securities, and also permits further review and assessment of the operation of the trading pauses, including whether alternative measures are appropriate.⁵

For more information, please see FINRA's <u>rule change</u> and Regulatory Notices <u>10-43</u> and <u>10-30</u>.

Endnotes

- See Securities Exchange Act Release No. 64735 (June 23, 2011), 76 FR 38243 (June 29, 2011) (Order Approving SR-FINRA-2011-023).
- 2. The 10 percent threshold will continue to apply to the securities currently included in the pilot (*i.e.*, the securities in the S&P 500 Index, the Russell 1000 Index and the list of selected ETPs).
- See Securities Exchange Act Release No. 62251 (June 10, 2010), 75 FR 34183 (June 16, 2010) (Order Approving File No. SR-FINRA-2010-025).
- 4. The price of a security will be based on the closing price on the previous trading day, or, if no closing price exists, the last sale reported to the Consolidated Tape on the previous trading day.
- On April 5, 2011, FINRA (along with other SROs) filed a proposed NMS Plan to create a marketwide limit up-limit down mechanism to address extraordinary market volatility in NMS stocks. As proposed, the limit up-limit down mechanism would replace the existing trading pause pilot. *See* Securities Exchange Act Release No. 64547 (May 25, 2011), 76 FR 31647 (June 1, 2011).

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