

NASD NOTICE TO MEMBERS 98-26

SEC Approves Temporary Changes To NYSE Circuit Breaker/Trading Halt Rules

Suggested Routing

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Executive Summary

On January 26, 1998, the Securities and Exchange Commission (SEC or Commission) granted accelerated approval of a New York Stock Exchange (NYSE) proposal to temporarily modify its circuit breaker rules.¹ Effective February 1, 1998 until April 30, 1998, NYSE trading will halt under the following circumstances:

1. If before 3:00 p.m., the Dow Jones Industrial Average (DJIA) falls 350 points from the previous day's close, NYSE trading will halt for one-half hour.
2. If at 3:00 p.m. or thereafter, the DJIA falls 350 points from the previous day's close, NYSE trading will not halt unless the fall continues to 550 points.
3. If before 2:00 p.m., the DJIA falls 550 points from the previous day's close, NYSE trading will halt for one hour.
4. If at 2:00 p.m. or thereafter, but before 3:00 p.m., the DJIA falls 550 points from the previous day's close, NYSE trading will halt for one-half hour.
5. If at 3:00 p.m. or thereafter, the DJIA falls 550 points from the previous day's close, NYSE trading will halt for the remainder of the trading day.

The National Association of Securities Dealers, Inc. (NASD®), in conjunction with all other U.S. equity and equity-related markets, has also agreed to halt, upon Commission request, trading in the securities listed on The Nasdaq Stock MarketSM (Nasdaq®) or those traded in the over-the-counter market if NYSE trading were to halt under the circumstances described above. This agreement reflects NASD's long-standing policy of cooperation and

coordination with the SEC and other markets on issues relating to trading halts during periods of market stress. The new standards are temporary and can be expected to change when a final resolution of circuit breaker and related issues is achieved between the SEC and all market participants.

In the interim, members are encouraged to become familiar with these new circuit breaker benchmarks and prepare themselves for halts in Nasdaq or over-the-counter trading should the NYSE declare a trading halt pursuant to the standards outlined above. Any such NASD trading halt will be initiated through Nasdaq Market Operations in Trumbull, Connecticut.

Questions regarding this NYSE rule change should be directed to Thomas P. Moran, Senior Attorney, Office of General Counsel, The Nasdaq Stock Market, Inc., at (202) 728-8401.

Background And Summary

Since 1988, the NASD has, in coordination with all other equity and equity-related markets in the United States, adopted as part of its Market Closing Policy Statement that the NASD will, upon SEC request, halt all domestic trading in all securities quoted on Nasdaq and all equity and equity-related securities in the over-the-counter market during conditions of extraordinary market volatility, as demonstrated by the reaching of certain numerical point declines in the DJIA known as "circuit breakers." The NASD Board of Governors, continuing its policy of cooperation with the Commission, agreed to extend this policy on January 22, 1998.

On October 27, 1997, at 2:35 p.m., circuit breakers were activated for the first time ever when the DJIA fell 350 points, thereby initiating a 30-minute

trading halt. When trading resumed, the DJIA continued to fall, reaching the second circuit breaker level of 550 points at 3:30 p.m., which began a one-hour trading halt that, since it occurred with only 30 minutes left of trading, closed all U.S. markets for the remainder of the day.

In response to widespread concern regarding the negative market effects of the circuit breakers during October 27, 1997, the SEC recently held discussions with all equity, options and futures markets to explore potential modifications to the circuit breakers and other issues connected with

trading halts. These discussions continue with the active participation of senior management of both the NASD and Nasdaq.

As an interim measure, the NYSE recently filed with the SEC a rule proposal to temporarily modify its circuit breaker rules. The SEC granted accelerated approval of the temporary NYSE proposal on January 26, 1998. Therefore, effective February 1, 1998 through April 30, 1998, NYSE trading will halt under the circumstances outlined in the Executive Summary.

Members are encouraged to become familiar with these new temporary circuit breaker benchmarks and prepare themselves for halts in Nasdaq or over-the-counter trading should the NYSE initiate a trading halt pursuant to the standards outlined above.

Endnote

¹ SEC Release No. 34-39582 (January 26, 1998).

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