

Trading-Pause Pilot Program

SEC Approves Amendments Permitting FINRA to Halt Trading by Firms Otherwise Than on an Exchange Where a Primary Listing Market Has Issued a Trading Pause Due to Extraordinary Market Volatility

Effective Date: June 10, 2010

Executive Summary

On June 10, 2010, FINRA began a pilot program in which it will halt trading otherwise than on an exchange with respect to securities included in the S&P 500® Index where the primary listing market has issued a trading pause due to extraordinary market volatility. The pilot is set to end on December 10, 2010.

Frequently asked questions about the trading-pause pilot are in Attachment A of this *Notice*. The text of the amendments to FINRA Rule 6121 can be found in the online FINRA Manual at www.finra.org/finramanual.

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 10, 2010, the Securities and Exchange Commission (SEC) approved an amendment to FINRA Rule 6121 to permit FINRA to halt trading in individual securities where the primary listing market has issued a trading pause in that security due to a move of 10 percent or more from a sale in a preceding five-minute period (the trading-pause rule).¹ This rule change was a part of a coordinated effort among FINRA, the SEC and other self-regulatory organizations to provide for a coordinated means to address potentially destabilizing market volatility, such as the type of sudden price declines that were experienced on the afternoon of May 6, 2010.

June 2010

Notice Type

- Rule Amendment

Suggested Routing

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

Key Topics

- Extraordinary Market Volatility
- Quotations
- Trading Halts

Referenced Rules & Notices

- NTM 02-82
- FINRA Rule 6121
- FINRA Rule 5260

As set forth in the similar, recently approved rule changes filed by several national securities exchanges, the primary listing markets will issue trading pauses for individual securities if the price of such security moves 10 percent or more from a sale in a preceding five-minute period.² The primary listing markets will notify FINRA, the other exchanges and market participants of the imposition of a trading pause by immediately disseminating a special indicator over the consolidated tape.

New Supplementary Material .01 to FINRA Rule 6121 provides that FINRA will similarly pause trading otherwise than on an exchange by FINRA member firms when the primary listing market has issued a trading pause.³ Thus, whenever the primary listing market issues an individual security trading pause under its rules, trading otherwise than on an exchange in that security also will be halted until trading has resumed on the primary listing market.⁴

Firms must have policies and procedures in place that are reasonably designed to ensure that, among other things, they promptly cease effecting transactions during a halt, as required by FINRA Rule 5260.

FINRA is implementing the trading-pause rule on a pilot basis. The pilot period will enable the SEC, FINRA and the exchanges to assess the effect of the new rules on the marketplace. Initially, the rule is in effect only for securities included in the S&P 500 Index, but FINRA anticipates that these rules will be expanded in the near future to additional securities, such as ETFs, within the pilot period.

Endnotes

- 1 See Securities Exchange Act Release No. 62251 (June 10, 2010) (Order Approving SR-FINRA-2010-025).
- 2 See Securities Exchange Act Release No. 62252 (June 10, 2010) (Order Approving File Nos. SR-BATS-2010-014; SR-EDGA-2010-01; SR-EDGX-2010-01; SR-BX-2010-037; SR-ISE-2010-48; SR-NYSE-2010-39; SR-NYSEAmex-2010-46; SR-NYSEArca-2010-41; SR-NASDAQ-2010-061; SR-CHX-2010-10; SR-NSX-2010-05; SR-CBOE-2010-047).
- 3 The exchanges' trading-pause rules apply from 9:45 a.m., ET until 3:35 p.m., ET on days when the exchanges are open during regular trading hours.
- 4 See Question #6, in Attachment A, for a discussion of the sole circumstance under which trading otherwise than on an exchange will be permitted to resume prior to the resumption of trading on the primary listing market.

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Attachment A: Frequently Asked Questions

Question 1: When will the trading-pause pilot begin and how long will it last?

FINRA's trading pause rule became effective on June 10, 2010, and currently is set to end on December 10, 2010.

Question 2: When can trading pauses occur during the trading day?

A trading pause can be triggered between 9:45 a.m., Eastern Time (ET) and 3:35 p.m., ET. No trading pause in an individual security will be called outside of these times. While a trading pause will not be implemented after 3:35 p.m., ET, a trading pause can remain in effect as late as 3:45 p.m., ET.

Question 3: What securities will be included in the pilot?

Consistent with the national securities exchanges, the trading pause pilot includes all S&P 500 Index stocks and may be expanded to include additional securities during the course of the pilot.

Question 4: Can all market center prints, including transactions executed otherwise than on an exchange, trigger a trading pause, or just the primary listing market?

All regular way, in-sequence prints, including transactions executed otherwise than on an exchange, sent to the Consolidated Tape or NASDAQ UTP SIP that are "last sale" eligible can trigger a trading pause. For more information regarding what types of trades are "last sale" eligible, consult the relevant plan's technical specification document at www.utpplan.com and www.nyxdata.com/CTA.

Question 5: During a trading pause, can a security trade otherwise than on an exchange?

No. Upon the receipt of notice from the primary listing market that the market has issued a trading pause in an individual security, trading otherwise than on an exchange in that security also is halted.

Question 6: When can trading in a paused security resume?

Consistent with the operation of trading halts in exchange-listed securities today, when trading has resumed on the primary listing market at the end of the five-minute pause, trading otherwise than on an exchange also may resume immediately in that security.

If a primary listing market extends the trading pause beyond the initial five-minute pause and reopens the security at or before the end of ten minutes, trading otherwise than on an exchange likewise may resume immediately at that time.

In the unusual circumstance where the primary listing market does not reopen for trading at the end of the ten-minute pause, FINRA may permit the resumption of trading otherwise than on an exchange in such security. FINRA expects that in most cases, it will not resume trading until the primary listing market resumes trading. However, if the primary listing market has issued notice that it cannot resume trading for a reason other than a significant imbalance and trading has commenced on at least one other national securities exchange, FINRA may determine to permit the resumption of trading otherwise than on an exchange. In such cases, FINRA will notify firms via its website at www.finra.org/traderesumption if it determines that trading otherwise than on an exchange may resume. If no such notice is provided, then trading otherwise than on an exchange may not resume until the primary listing market has resumed trading.

Question 7: If a member firm routes an order for execution on behalf of a customer prior to the primary listing market issuing a trading pause in that security, but the halt takes effect before the member firm has filled the customer order, can the member firm fill the customer order during the halt with the execution received prior to the halt?

No. As stated in *Notice to Members (NTM) 02-82*, a member firm cannot execute any part of an order once a trading halt is in effect. Therefore, member firms may not, for example, complete the second leg of a riskless principal transaction or otherwise fill a customer order with shares received in an execution prior to a halt taking effect until the halt has been lifted.

Question 8: If an issue that is listed on a foreign market is subject to a trading halt on a U.S. market, but not halted on the foreign market, may a firm trade the security on the foreign market consistent with FINRA Rule 5260?

No. As stated in *NTM 02-82*, member firms may not directly effect trades on international markets for their own accounts and may not solicit customer orders in these securities. If a member firm receives an unsolicited customer order in a security subject to a trading halt, it may route the order to a non-member entity or non-member affiliate not covered by the halt for execution in a foreign market.