

Many other commenters, however, believed that the events of May 6 demonstrate the need for trading pauses in individual stocks as a means to reduce excessive market volatility.<sup>23</sup> The Commission agrees that the proposed trading pauses are prudent measures that are appropriately being introduced on a pilot basis to address extraordinarily severe and harmful price volatility of the kind that occurred on May 6.

In sum, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to FINRA. In particular, the Commission finds that the proposal is consistent with Section 15A(b)(6) of the Act,<sup>24</sup> which among other things requires that the rules of FINRA be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and in general, to protect investors and the public interest.<sup>25</sup>

The Commission believes the proposed rule change, among other things, will establish consistent, market-wide trading pauses as a means to prevent potentially destabilizing price volatility and will thereby help promote the goals of investor protection and fair and orderly markets.

The Commission also finds good cause for approving the proposal before the 30th day after the publication of notice thereof in the **Federal Register**. FINRA has worked quickly and cooperatively with the Exchanges to devise a response to the events of May 6, 2010. The Commission received a number of comments on the proposal, the great majority of which were supportive of the proposed trading pause. The proposed rule change is being implemented on a pilot basis so that the Commission and FINRA can monitor the effects of the pilot on the marketplace and consider adjustments,

trade rules, and market participants' reactions to securities nearing the threshold). Another commenter urged the Commission to proceed cautiously in this area, expressing the view that "unencumbered market forces are preferable to the implementation of artificial trade frictions wherever possible." See Knight Letter, *supra* note 6. The Commission will continue to consider these comments in evaluating the impact of the pilot.

<sup>23</sup> See, e.g., Accenture Letter, BlackRock Letter, Business Roundtable Letter, CCMP Letter, Credit Suisse Letter, ICI Letter, TD Ameritrade Letter, Vanguard Letter, *supra* note 6.

<sup>24</sup> 15 U.S.C. 78f(b)(5), 15 U.S.C. 78o-3(b)(6).

<sup>25</sup> In approving the proposed rule change, the Commission notes that it has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

as necessary. The Commission believes that accelerating approval of this proposal is appropriate as it will enable FINRA nearly immediately to begin coordinating trading pauses with the Exchanges in the event of sudden changes in the value of the S&P 500 Index stocks. In particular, the Commission believes that this proposed rule change should further the goals of investor protection and fair and orderly markets.

#### IV. Conclusion

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>26</sup> that the proposed rule change (SR-FINRA-2010-025) be, and hereby is, approved on an accelerated basis.

By the Commission.

Elizabeth M. Murphy,  
Secretary.

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#### SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-62252; 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]

**Self-Regulatory Organizations; BATS Exchange, Inc.; EDGA Exchange, Inc.; EDGX Exchange, Inc.; NASDAQ OMX BX, Inc.; International Securities Exchange LLC; New York Stock Exchange LLC; NYSE Amex LLC; NYSE Arca, Inc.; The NASDAQ Stock Market LLC; Chicago Stock Exchange, Inc.; National Stock Exchange, Inc.; Chicago Board Options Exchange, Incorporated; Order Granting Accelerated Approval to Proposed Rule Changes Relating to Trading Pauses Due to Extraordinary Market Volatility**

June 10, 2010.

#### I. Introduction

On May 18, 2010, each of BATS Exchange, Inc. ("BATS"), EDGX Exchange, Inc. ("EDGX"), NASDAQ OMX BX, Inc. ("BX"), International Securities Exchange LLC ("ISE"),<sup>1</sup> New York Stock Exchange LLC ("NYSE"), NYSE Amex LLC ("NYSEAmex"), NYSE Arca, Inc. ("NYSEArca"), The NASDAQ Stock Market LLC ("NASDAQ"), National Stock Exchange, Inc. ("NSX")

<sup>26</sup> 15 U.S.C. 78s(b)(2).

<sup>1</sup> ISE filed a technical amendment to the proposed rule change on June 4, 2010.

and Chicago Board Options Exchange, Incorporated ("CBOE") filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1)<sup>2</sup> of the Securities Exchange Act of 1934 ("Act"),<sup>3</sup> and Rule 19b-4 thereunder,<sup>4</sup> proposed rule changes to amend certain of their respective rules, or adopt new rules, to provide for trading pauses in individual stocks when the price moves ten percent or more in the preceding five minute period. On May 19, 2010, EDGA Exchange, Inc. ("EDGA") and Chicago Stock Exchange, Inc. ("CHX") filed proposed rule changes to provide for similar trading pauses.<sup>5</sup> The proposed rule changes were published for comment in the **Federal Register** on May 24, 2010.<sup>6</sup> The Commission received 26 comments on the proposals and on the broader concept of circuit breakers on individual securities.<sup>7</sup> The

<sup>2</sup> 15 U.S.C. 78s(b)(1).

<sup>3</sup> 15 U.S.C. 78a.

<sup>4</sup> 17 CFR 240.19b-4.

<sup>5</sup> The term "Exchanges" shall refer collectively to all of the exchanges in this order. The term "Listing Markets" refers collectively to NYSE, NYSEAmex and NASDAQ. The term "Nonlisting Markets" refers collectively to the remaining nine national securities exchanges. The term SROs refers collectively to the Exchanges and the Financial Industry Regulatory Authority ("FINRA").

<sup>6</sup> See Securities Exchange Act Release Nos. 62121 (May 19, 2010), 75 FR 28834 (May 24, 2010); 62123 (May 19, 2010), 75 FR 28844 (May 24, 2010); 62124 (May 19, 2010), 75 FR 28828 (May 24, 2010); 62125 (May 19, 2010), 75 FR 28836 (May 24, 2010); 62126 (May 19, 2010), 75 FR 28831 (May 24, 2010); 62127 (May 19, 2010), 75 FR 28837 (May 24, 2010); 62128 (May 19, 2010), 75 FR 28830 (May 24, 2010); 62129 (May 19, 2010), 75 FR 28839 (May 24, 2010); 62131 (May 19, 2010), 75 FR 28845 (May 24, 2010); 62132 (May 19, 2010), 75 FR 28847 (May 24, 2010); 62122 (May 19, 2010), 75 FR 28833 (May 24, 2010); and 62130 (May 19, 2010), 75 FR 28842 (May 24, 2010).

On May 18, 2010, FINRA filed a proposed rule change, which was approved today. See Securities Exchange Act Release No. 62133 (May 19, 2010), 75 FR 28841 (May 24, 2010); Securities Exchange Act Release No. 62251 (June 10, 2010) (SR-FINRA-2010-025).

<sup>7</sup> The Commission considered letters received prior to May 18 discussing the concept of individual stock circuit breakers as well as formal letters citing the rule filings. See Letter from Senator Charles E. Schumer to Chairman Schapiro, Commission, *et al.*, dated May 10, 2010; Letter from Congressman Edward J. Markey to Chairman Schapiro, Commission, dated May 11, 2010; Letter from Cliff Pereira to Elizabeth M. Murphy, Secretary, Commission, dated May 13, 2010; Letter from Thomas Hoffer to Elizabeth M. Murphy, Secretary, Commission, dated May 13, 2010 ("Hoffer Letter"); Letter from James K. Rutledge to Rule-Comments, Commission, dated May 13, 2010; Letter from John Meredith to Elizabeth M. Murphy, Secretary, dated May 19, 2010; Letter from Peter Skopp, Molinete Trading Inc. to Elizabeth M. Murphy, Secretary, Commission, dated May 20, 2010 ("Molinete Letter"); letter from Paul Rogers to Rule-Comments, Commission, dated May 20, 2010; Letter from Congressman Eric Cantor to Chairman Schapiro, Commission, dated May 21, 2010; Letter from T.P. Tursick to Elizabeth M. Murphy, Secretary, Commission, dated May 25, 2010; Letter from James J. Angel to the Commission, dated May

NYSE responded to the comments in a letter dated June 8, 2010.<sup>8</sup> This order grants accelerated approval to the proposed rule changes.

## II. Description of the Proposals

On May 6, 2010, the U.S. equity markets experienced a severe disruption.<sup>9</sup> Among other things, the prices of a large number of individual securities suddenly declined by significant amounts in a very short time period, before suddenly reversing to prices consistent with their pre-decline levels. This severe price volatility led to a large number of trades being executed at temporarily depressed prices, including many that were more than 60% away from pre-decline prices and were broken by the Exchanges. The Commission is concerned that events such as those that occurred on May 6

can seriously undermine the integrity of the U.S. securities markets.

Accordingly, it is working on a variety of fronts to assess the causes and contributing factors of the May 6 market disruption and to fashion policy responses that will help prevent a recurrence.

The Commission also recognizes the importance of moving quickly to implement appropriate steps that could help limit potential harm from extreme price volatility. In this regard, it is pleased that the SROs began consulting soon after May 6 in an effort to develop consistent circuit breaker rules that could be implemented on an expedited basis. The SROs were able to reach agreement on a consistent approach, and, on May 18 and 19, 2010, all of the SROs filed proposed rule changes with the Commission.

These rules would require the Listing Markets to issue five-minute trading pauses for individual securities for which they are the primary Listing Market if the transaction price of the security moves ten percent or more from a price in the preceding five-minute period. The Listing Markets would notify the other Exchanges and market participants of the imposition of a trading pause by immediately disseminating a special indicator over the consolidated tape.<sup>10</sup> Under the rules, once a Listing Market issues a trading pause, the other Exchanges would be required to pause trading in that security on their markets.<sup>11</sup> In order to avoid interfering with existing procedures designed to facilitate orderly openings and closings, the trading pause requirements would apply only from 9:45 a.m. until 3:35 p.m.

At the end of the five-minute pause, the primary Listing Market would reopen trading in the security in accordance with its procedures for doing so. Trading would resume on the other Exchanges and in the over-the-counter market once trading has resumed on the primary Listing Market. In the event of a significant imbalance on the primary Listing Market at the end of a trading pause, the primary Listing

Market may delay reopening. If the primary Listing Market has not reopened within ten minutes from the initiation of the trading pause, however, the other Exchanges may resume trading.<sup>12</sup>

The Exchanges have proposed that these rule changes be implemented as a pilot that would end on December 10, 2010. The pilot period would enable the Exchanges and the Commission to assess the effect of the new rules on the marketplace. To initiate this pilot promptly, the proposed rules would be in effect only with respect to securities included in the S&P 500 Index. The Commission understands that the Exchanges expect to file additional rule proposals in the near future to expand the scope of the pilot (for example, to include ETFs) within the pilot period.<sup>13</sup>

The Exchanges have requested that the Commission approve the proposed rule changes on an accelerated basis, so that they may become operative as soon as practicable.

## III. Discussion of Comments and Commission Findings

As of June 7, the Commission received 26 comment letters regarding the proposed rule changes, a substantial number of which were generally supportive. For example, an institutional investor stated that “on very rare occasions like May 6 a pause in trading is necessary to give market participants a chance to ‘reset’ and react appropriately to periods of dislocation. A reasonable trading halt will provide investors time to rationally assess the market events and commit liquidity at appropriate price levels.”<sup>14</sup> Another institutional investor strongly supported single stock circuit breakers, noting that “trading pauses may reduce market volatility resulting from temporary supply-demand imbalances without unduly interrupting price discovery.”<sup>15</sup>

The commenters also raised a variety of significant issues regarding the scope and operation of the circuit breakers. These include: (1) Whether the circuit breakers should be expanded beyond S&P 500 stocks, particularly to exchange traded funds (“ETFs”) and the securities of other companies that were most severely affected on May 6;<sup>16</sup> (2) the

25, 2010 (“Angel Letter”); Letter from Larry Harris, USC Marshall School of Business, to Elizabeth M. Murphy, Secretary, Commission, dated May 26, 2010 (“Harris Letter”); Letter from Judith Kittinger to WebMaster, Commission, dated May 27, 2010; Letter from Congresswoman Melissa L. Bean to Chairman Schapiro, Commission, dated May 28, 2010 (“Bean Letter”); Letter from Patrick J. Healy, Issuer Advisory Group, LLC, to Elizabeth M. Murphy, Secretary, Commission, dated May 31, 2010 (“IAG Letter”); Letter from Hal McIntyre, The Summit Group, to Elizabeth M. Murphy, Commission, undated “Summit Group Letter”); Letter from Ira Shapiro, BlackRock Inc. to Elizabeth M. Murphy, Secretary, Commission, dated June 2, 2010 (“BlackRock Letter”); Letter from Christopher Nagy, TD Ameritrade to Elizabeth M. Murphy, Secretary, Commission, dated June 3, 2010 (“TD Ameritrade Letter”); Letter from Alexander M. Cutler, Business Roundtable to Elizabeth M. Murphy, Secretary, Commission, dated June 3, 2010 (“Business Roundtable Letter”); Letter from George U. Sauter, The Vanguard Group, Inc. to Elizabeth M. Murphy, Secretary, Commission, dated June 3, 2010 (“Vanguard Letter”); Letter from Julie Sweet, Accenture plc to Elizabeth M. Murphy, Secretary, Commission, dated June 3, 2010 (“Accenture Letter”); Letter from Tom Quaadman, Center for Capital Markets Competitiveness to Elizabeth M. Murphy, Secretary, Commission, dated June 3, 2010 (“CCMC Letter”); Letter from Jeffrey W. Rubin, American Bar Association Business Law Section to Elizabeth M. Murphy, Secretary, Commission, dated June 3, 2010 (“ABA Letter”); Letter from Karrie McMillan, Investment Company Institute to Elizabeth M. Murphy, Secretary, Commission, dated June 3, 2010 (“ICI Letter”); Letter from Daniel Mathisson, Credit Suisse Securities (USA) LLC to Elizabeth M. Murphy, Secretary, Commission, dated June 3, 2010 (“Credit Suisse Letter”); Letter from Leonard J. Amoroso, Knight Capital Group, Inc. to Elizabeth M. Murphy, Secretary, Commission, dated June 4, 2010 (“Knight Letter”).

<sup>8</sup> See Letter from Janet Kissane, Senior Vice President—Legal & Corporate Secretary, NYSE Euronext to Elizabeth M. Murphy, Secretary, Commission, dated June 8, 2010 (“Response Letter”), including data and analysis. See also Memo from the Division of Risk, Strategy and Financial Innovation to File, dated June 4, 2010.

<sup>9</sup> The events of May 6 are described more fully in the report of the staffs of the Commodity Futures Trading Commission (“CFTC”) and the Commission, titled *Report of the CFTC and SEC to the Joint Advisory Committee on Emerging Regulatory Issues*, “Preliminary Findings Regarding the Market Events of May 6, 2010,” dated May 18, 2010.

<sup>10</sup> When a trading pause is issued, the Listing Market will immediately notify the single plan processor responsible for consolidation of information for the security pursuant to Rule 603 of Regulation NMS under the Exchange Act. The single plan processor for all listed securities other than Nasdaq-listed securities is the Securities Industry Automation Corporation (“SIAC”). The single plan processor for Nasdaq-listed securities is Nasdaq.

<sup>11</sup> FINRA’s rule provides that it will similarly pause trading in the over-the-counter market by FINRA members, including alternative trading systems and market makers, when a Listing Market has issued a trading pause.

<sup>12</sup> Some of the Nonlisting Markets, such as ISE, may not begin trading under their proposed rules until the Listing Market begins.

<sup>13</sup> Any such rule proposals would be published for public comment in accordance with Section 19(b) of the Act.

<sup>14</sup> See Vanguard Letter, *supra* note 7.

<sup>15</sup> See, e.g., BlackRock Letter, *supra* note 7.

<sup>16</sup> See, e.g., ABA Letter, Accenture Letter, Angel Letter, Bean Letter, CCMP Letter, Credit Suisse

need for revised market-wide circuit breakers;<sup>17</sup> and (3) operational issues regarding the circuit breakers, including the times when they should apply,<sup>18</sup> the threshold events that should trigger them and the length of the pause,<sup>19</sup> the procedures for resuming trading after a pause,<sup>20</sup> and alternatives to the circuit breaker mechanism.<sup>21</sup>

The Commission believes that most if not all of these suggestions regarding potential ways to improve or perfect the

Letter, IAG Letter, ICI Letter (expressing particular concern that if circuit breakers exist for individual securities contained in ETFs' baskets, but not for the ETFs themselves, ETFs could again suffer disproportionately during a market event such as that of May 6), Summit Group Letter, TD Ameritrade Letter, and Vanguard Letter, *supra* note 7. One commenter also raised concerns about the potential consequences of circuit breakers being triggered simultaneously in many securities. See Angel Letter.

<sup>17</sup> See, e.g., Angel Letter, *supra* note 7.

<sup>18</sup> Suggestions included applying the circuit breakers for the entire trading day (i.e., including during the opening and closing periods). See, e.g., Angel Letter (noting the considerable trading activity and volatility that occurs during the first and last minutes of the trading day), Credit Suisse Letter (noting that in S&P 500 stocks 6% of the daily volume typically occurs from 9:30 a.m. to 9:45 a.m., and 18% occurs from 3:35 p.m. to 4 p.m., and that intra-day volatility tends to be highest during these time periods), IAG Letter, and TD Ameritrade Letter (arguing that the many retail investor orders executed at market open should not be deprived the protections of the circuit breaker rules), *supra* note 7.

<sup>19</sup> Suggestions included using a trigger threshold other than 10% or a pause period other than five minutes. See, e.g., Angel Letter (suggesting securities outside the S&P 500 may need a trigger threshold greater than 10%, and that the pause period may need to be longer than five or ten minutes), BlackRock Letter (arguing that the 10% circuit breaker level is too narrow, with their data showing it would have halted trading on only 58 of S&P 500 stocks on May 6, 2010, as opposed to 309 S&P 500 stocks on that day with a 5% circuit breaker), Credit Suisse Letter (suggesting a ten-minute halt period), Hoffer Letter (suggesting that trigger thresholds vary commensurate with the stock's volatility, perhaps 5% for low beta stocks, 10% for medium beta stocks, and 30% for high beta stocks), Knight Letter (recommending a minimum trigger threshold of 15%, and the use of more sophisticated variables such as dollar price, average daily volume, and market capitalization), and Summit Group Letter (suggesting a longer pause period may be required to allow small investors to respond), *supra* note 7. Other commenters suggested using a trigger based on the national best bid or offer rather than a trade price. See, e.g., Molinete Letter, *supra* note 7.

<sup>20</sup> Suggestions included precluding resumption of trading until the primary listing market has resolved any imbalances. See, e.g., BlackRock Letter, Credit Suisse Letter, Knight Letter and TD Ameritrade Letter, *supra* note 7. *But see* Harris Letter, *supra* note 7 (arguing that trade halt rules are anti-competitive because they encourage traders to submit their orders to the dominant exchanges so that they can participate in the call auctions that restart trading).

<sup>21</sup> Suggestions included using a futures-style "limit down" mechanism rather than a full trading pause. See, e.g., Accenture Letter, Credit Suisse Letter, and Harris Letter (arguing that trading at prices that reverse the triggering price change should be permitted), *supra* note 7.

scope and operation of the circuit breaker, or variations on them, were generally considered by the Exchanges in developing a uniform proposal that could be implemented in a reasonably short period of time and yet provide important benefits to the markets.<sup>22</sup> The Commission recognizes that all of these issues warrant continued close consideration in the coming days and months, and it expects that the SROs will continue to consult with each other, the Commission and market participants on both the scope and operation of the circuit breakers.

With respect to the specific proposals under consideration here, however, the Commission has evaluated them based on whether they are consistent with the Act and whether they represent a useful first step that should improve the existing procedures for protecting investors and maintaining fair and orderly markets. It finds that the proposals meet these standards and therefore is approving them on an expedited basis.

The Commission agrees that consideration should be given by the Exchanges to whether the circuit breakers should be expanded to additional securities, but does not believe that there is a reason to delay the implementation of circuit breakers for S&P 500 stocks as a reasonable first step.<sup>23</sup> Similarly, it agrees that the existing market-wide circuit breakers should be re-examined in light of current market conditions, but again does not believe that the initial stage of the circuit breaker pilot for individual stocks should be delayed pending that re-examination. With respect to operational issues regarding the circuit breakers, the Commission anticipates that the Exchanges will continue to evaluate these issues during the pilot period, and will propose any modifications to the circuit breakers that may be necessary or appropriate before that period has ended, but does not believe that the first stage of the circuit breaker pilot should be delayed pending such consideration.<sup>24</sup>

<sup>22</sup> See, e.g., Response Letter, *supra* note 8.

<sup>23</sup> In particular, the Commission acknowledges the concerns raised by the ICI, Blackrock, and others regarding the potential adverse consequences for ETFs if the circuit breakers cover individual securities that are held by an ETF but not the ETF itself. Those comment letters do not explicitly recommend delaying the launch of the pilot program with respect to the S&P 500, but they do urge that ETFs be added to the pilot as soon as possible. As noted below, the Commission anticipates that the Exchanges will be proposing amendments to the pilot to include ETFs.

<sup>24</sup> Commenters also raised a number of issues not directly related to the scope or operation of the trading pauses. One, for example, was the operation of the Exchanges' erroneous trade rules. See TD

A few commenters expressed concern that the proposed circuit breakers could cause more harm than good. One, for example, suggested that the Exchanges' timeframe for implementation of the proposed rule changes could be overly aggressive and lead to systems problems.<sup>25</sup> The Commission understands that the Exchanges have been working closely with market participants to address implementation issues and facilitate a prompt yet workable roll-out of the circuit breaker pilot.<sup>26</sup> No other comments were received indicating that exchanges, other trading venues or broker-dealers would not be able to fully implement the proposed circuit breakers within the timeframes established in the Exchange filings.

Other commenters questioned whether trading halts may exacerbate price volatility, and one stated that a trading halt on May 6 might have increased the order imbalance preventing an intraday recovery.<sup>27</sup> Many other commenters, however, believed that the events of May 6 demonstrate the need for trading pauses in individual stocks as a means to reduce excessive market volatility.<sup>28</sup> The Commission agrees that the proposed trading pauses are prudent measures that are appropriately being introduced on a pilot basis to address extraordinarily severe and harmful price volatility of the kind that occurred on May 6.

In sum, the Commission finds that the proposed rule changes are consistent with the requirements of the Act and the rules and regulations thereunder

Ameritrade Letter, *supra* note 7. The Commission expects that the Exchanges will continue to consult on these rules and anticipates they will submit proposals to clarify their operation in the near future.

<sup>25</sup> See Molinete Letter, *supra* note 7.

<sup>26</sup> See Response Letter, *supra* note 9.

<sup>27</sup> See Harris Letter, *supra* note 7 (arguing that trading halts will attenuate volatility if liquidity or rationality arrives before markets return to normal operation, and positing that on May 6 many traders would have thought the price drop was due to fundamental valuation issues, in which case the order imbalance could have grown larger during the halt as traders drew incorrect inferences from the event). See also Molinete Letter, *supra* note 7 (suggesting the proposed rules may exacerbate market volatility rather than reduce it due to the interplay of stock circuit breaker rules, erroneous trade rules, and market participants' reactions to securities nearing the threshold). Another commenter urged the Commission to proceed cautiously in this area, expressing the view that "unencumbered market forces are preferable to the implementation of artificial trade frictions wherever possible." See Knight Letter, *supra* note 7. The Commission will continue to consider these comments in evaluating the impact of the pilot.

<sup>28</sup> See, e.g., Accenture Letter, BlackRock Letter, Business Roundtable Letter, CCMP Letter, Credit Suisse Letter, ICI Letter, TD Ameritrade Letter, Vanguard Letter, *supra* note 7.

applicable to national securities exchanges. In particular, the Commission finds that the proposals are consistent with Section 6(b)(5) of the Act,<sup>29</sup> which among other things requires that the rules of national securities exchanges be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and in general, to protect investors and the public interest.<sup>30</sup>

The Commission believes the proposed rule changes, among other things, will establish consistent, market-wide trading pauses as a means to prevent potentially destabilizing price volatility and will thereby help promote the goals of investor protection and fair and orderly markets.

The Commission also finds good cause for approving the proposals before the 30th day after the publication of notice thereof in the **Federal Register**. The Exchanges have worked quickly and cooperatively to devise a response to the events of May 6, 2010. The Commission received a number of comments on the proposals, the great majority of which were supportive of the proposed trading pause. The proposed changes are being implemented on a pilot basis so that the Commission and the Exchanges can monitor the effects of the pilot on the marketplace and consider adjustments, as necessary. The Commission believes that accelerating approval of these proposals is appropriate as it will enable the Exchanges nearly immediately to begin coordinating trading pauses across markets in the event of sudden changes in the value of the S&P 500 Index stocks. In particular, the Commission believes that these proposed rule changes should further the goals of investor protection and fair and orderly markets.

#### IV. Conclusion

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>31</sup> that the proposed rule changes (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) be, and hereby are, approved on an accelerated basis.

By the Commission.

**Elizabeth M. Murphy**,  
*Secretary*.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-62255; File No. SR-EDGA-2010-02]

### Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by EDGA Exchange, Inc. Relating to Direct Edge, Inc.

June 10, 2010.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on June 3, 2010, EDGA Exchange, Inc. (the “Exchange” or “EDGA”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

#### I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

EDGA proposes to make changes to its corporate structure to provide that it will be a wholly-owned subsidiary of Direct Edge, Inc. (“DEI”) instead of Direct Edge Holdings, LLC (“DE Holdings”).

The proposed Certificate of Incorporation of DEI (“DEI Certificate”) is attached as Exhibit 5A, the proposed Bylaws of DEI (“DEI Bylaws”) are attached as Exhibit 5B, and the Amended and Restated Bylaws of EDGA (“EDGA Bylaws”) are attached as Exhibit 5C.

The text of the proposed rule change is available on the Exchange’s Web site <http://www.directedge.com>, on the Commission’s Internet Web site at <http://www.sec.gov>, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

#### II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements

concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

#### A. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

##### 1. Purpose

##### Background

On March 12, 2010, the Commission granted the Form 1 exchange registration applications of EDGA and its affiliate exchange, EDGX Exchange, Inc. (“EDGX”).<sup>3</sup>

As provided in the Form 1 application, EDGA and Direct Edge ECN, LLC d/b/a DE Route (“DE Route”), the Exchange’s routing broker/dealer, are wholly-owned subsidiaries of DE Holdings.<sup>4</sup> EDGA Bylaws identify this ownership structure.<sup>5</sup> Any changes to the EDGA Bylaws, including any change in the provision that identifies DE Holdings as the initial owner of EDGA, must be filed with and approved by the Commission pursuant to Section 19 of the Act.<sup>6</sup> As part of a general corporate reorganization, EDGA is now proposing to create a new corporation, DEI, which will be owned by DE Holdings. DEI will, in turn, own the Exchange and be both an operating and holding company. All of the equity of EDGA is proposed to be transferred to DEI. In turn, DE Holdings will be the sole stockholder of DEI and thus, DEI will be a wholly-owned subsidiary of DE Holdings. The self-regulatory functions of EDGA will, however, continue to remain with EDGA. As stated above, DE Route will continue to be owned directly by DE Holdings.

In connection with this corporate reorganization, the Exchange is filing these documents with the Commission as part of Exhibit 5: (i) The proposed DEI Certificate is attached as Exhibit 5A; (ii) the proposed DEI Bylaws are attached as Exhibit 5B; and (iii) the

<sup>3</sup> See Securities and Exchange Release No. 61698 (March 12, 2010), 75 FR 13151 (March 18, 2010) (approving File Nos. 10-194 and 10-196) (the “Order”).

<sup>4</sup> DE Holdings is a limited liability company overseen by a board of managers. Ownership in DE Holdings is represented by limited liability membership interests. EDGX is also a wholly-owned subsidiary of DE Holdings.

<sup>5</sup> EDGA Bylaws, Article I., Section kk.

<sup>6</sup> See 15 U.S.C. 78s. See also Order at note 77 and accompanying text.

<sup>29</sup> 15 U.S.C. 78f(b)(5).

<sup>30</sup> In approving the proposed rule change, the Commission notes that it has considered the proposed rules’ impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

<sup>31</sup> 15 U.S.C. 78s(b)(2).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.