



November 30, 2012

By Electronic Mail

Mr. Robert Cook
Director
Division of Trading and Markets
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

Re: File No. 4-631, Plan to Address Extraordinary Market Volatility Submitted to the Securities and Exchange Commission Pursuant to Rule 608 of Regulation NMS Under the Securities Exchange Act of 1934 ("Exchange Act")

Dear Mr. Cook:

The Securities Industry and Financial Markets Association ("SIFMA")¹ respectfully requests that the Securities and Exchange Commission ("Commission") approve an adjustment to the implementation schedule for the Plan to Address Extraordinary Market Volatility (known as the "Limit Up-Limit Down Plan").² As you know, SIFMA has been supportive of the introduction of the Limit Up-Limit Down Plan on a pilot basis, and we believe it will be a constructive addition to U.S. equity market structure. However, as described below, we believe there are substantial operational and interpretive issues that remain to be resolved before the currently-scheduled implementation date of February 4, 2013 for Phase 1 of the Limit Up-Limit Down Plan. In particular, proposed rule changes from FINRA and the national securities exchanges that are participants to the Limit Up-Limit Down Plan (collectively, the "SROs") and corresponding rule interpretations have not yet been made publicly available. SIFMA is extremely concerned that there is not enough information available to SIFMA members and industry participants to properly develop the technology specifications for the necessary systems and coding changes. Those specifications, coupled with the associated systems and coding changes, are essential to fully test and properly implement the requirements for Phase 1 of the

¹ The Securities Industry and Financial Markets Association (SIFMA) brings together the shared interests of hundreds of securities firms, banks and asset managers. SIFMA's mission is to support a strong financial industry, investor opportunity, capital formation, job creation and economic growth, while building trust and confidence in the financial markets. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit <http://www.sifma.org>.

² See Securities Exchange Act Release No. 67091 (May 31, 2012), 77 FR 33498 (June 6, 2012) (Order Approving, on a Pilot Basis, National Market System Plan to Address Extraordinary Market Volatility).

Limit Up-Limit Down Plan on February 4, 2013. SIFMA believes that proceeding with the current implementation schedule would create a great deal of risk, as well as a situation in which firms are required to implement significant systems and coding changes without sufficient time to conduct testing. Additionally, such a situation could cause firms to code in an inconsistent manner in the absence of rules and interpretive guidance from the SROs and the Commission.

As an alternative, SIFMA requests that the implementation schedule for Phase 1 of the Limit Up-Limit Down plan be adjusted, with a schedule established to implement Phase 1 of the Limit Up-Limit Down Plan gradually over time, with full implementation of Phase 2 of the Plan still targeted for August 5th. We are committed to working with the SROs to develop a workable implementation schedule, and we envision a staged implementation as including the following segments:

- Dissemination of the Price Bands could begin as early as February 4, 2013. This initial dissemination would give our member firms time to absorb the new market data and complete the necessary systems and coding changes.
- Application of the Limit Up-Limit Down Requirements and Trading Pauses could be tested using a set of test symbols in a production environment after the SROs' rule filings are approved and interpretive issues are clarified.
- When production testing with test symbols is complete, Phase 1 securities could be implemented on a rolling basis.

SIFMA proposes that the implementation date for Phase 2 of the Limit Up-Limit Down Plan be maintained as currently scheduled for August 5, 2013.

Two factors in particular lead to SIFMA's request for an adjustment of the implementation schedule. These factors, combined with firms' year-end coding freezes, will make it extremely difficult for firms to make the last-minute systems and coding changes that will be necessary if the implementation schedule for Phase 1 is not adjusted.

First, the SROs are still in the process of preparing proposed rule changes to clarify the application of the Limit Up-Limit Down Plan to both the equities and options markets. As of the date of this letter, the SROs have not filed those proposed rule changes with the Commission. Even if those proposed rule changes are filed with the Commission soon, the Commission's approval of those proposed rule changes most likely would not occur before the middle of January, which would give firms, at most, only one month to complete systems and coding changes and carry out testing in both non-production and production environments.

Second, SIFMA and its member firms have identified a number of interpretive issues that must be resolved before firms can complete their systems and coding changes and conduct the appropriate testing for the implementation of Limit Up-Limit Down. SIFMA will present the

specific issues to the Commission and the SROs, and they include, but are not limited to, the following:

- ***Rule 604 of Regulation NMS under the Exchange Act (“Regulation NMS”), Limit Order Display.*** SIFMA would like clarification that the exception in Rule 604(b)(5) (for limit orders delivered immediately to an exchange or an ECN) will apply to firms that route limit orders to trading centers where the trading center is prohibited from displaying the order under the Limit Up-Limit Down Plan.
- ***Rule 605 of Regulation NMS under the Exchange Act, Order Execution Disclosure.*** SIFMA would like clarification that firms can exclude market orders and marketable limit orders from their Rule 605 calculations if they are received at a time when the National Best Bid or National Best Offer is marked “non-executable.”
- ***Section VI(A)(1) of the Plan, Preventing Trades and Quotations at Prices Outside the Price Bands:***
 - (1) SIFMA would like the SROs to extend the exclusions from the limitations on trades and quotations under the Limit Up-Limit Down Plan to certain transactions excepted or exempted from Rule 611 of Regulation NMS but that do update the last sale price.
 - (2) SIFMA would like the SROs to exclude block trades from the limitations on trades and quotations under the Limit Up-Limit Down Plan.
 - (3) SIFMA would like the SROs to confirm that firms are permitted to route non-executable and non-displayable quotes and orders to trading centers and rely on the trading centers to prevent display and execution.
 - (4) SIFMA would like the SROs to confirm that odd-lot transactions are subject to the limitations on trades and quotations under the Limit Up-Limit Down Plan even though they are not subject to Rule 611 *and* do not update the last sale price.
- ***Section VIII(A)(3) of the Plan, Implementation Phase I.*** SIFMA would like the SROs to clarify that the phrase “shall not enter a Limit State” in the second sentence of that subsection is instead supposed to read “shall not enter a Trading Pause.”

The Limit Up-Limit Down Plan is a very significant market structure change that will require a great deal of rigorous testing prior to implementation. SIFMA is extremely concerned with the substantial risks if firms are not provided with sufficient time to not only conduct the appropriate system specification development and code changes, but also test them rigorously. Further, we are concerned about the risks of adverse market events that could occur if member firms are not provided with the ability to properly test their underlying systems in accordance

with the Limit Up-Limit Down plan and the corresponding SRO rule sets and regulatory interpretations. These factors support an adjustment of the implementation schedule for Phase 1 of the Limit Up-Limit Down Plan.

* * *

SIFMA greatly appreciates the Commission's consideration of the request above in connection with the Limit Up-Limit Down plan. SIFMA would be pleased to discuss these comments in greater detail with the Commission and the Staff. If you have any questions, please contact me at 202-962-7383 or tlazo@sifma.org.

Sincerely,

A handwritten signature in blue ink, appearing to read "Theodore R. Lazo", with a long horizontal flourish extending to the right.

Theodore R. Lazo
Managing Director and
Associate General Counsel

cc: Mary L. Schapiro, Chairman
Luis A. Aguilar, Commissioner
Troy A. Paredes, Commissioner
Elisse B. Walter, Commissioner
Daniel J. Gallagher, Commissioner

James R. Burns, Deputy Director, Division of Trading and Markets
David S. Shillman, Associate Director, Division of Trading and Markets
Heather Seidel, Associate Director, Division of Trading and Markets
Andrew Madar, Senior Special Counsel, Division of Trading and Markets

Joe Ratterman, President and Chief Executive Officer, BATS Global Markets
William J. Brodsky, Chairman and Chief Executive Officer, Chicago Board Options Exchange
David A. Herron, Chief Executive Officer, Chicago Stock Exchange
William O'Brien, Chief Executive Officer, Direct Edge
Richard G. Ketchum, Chairman and Chief Executive Officer, FINRA
Robert Greifeld, Chief Executive Officer, Nasdaq OMX
David F. Harris, Chairman and Chief Executive Officer, National Stock Exchange
Duncan L. Niederauer, Chief Executive Officer, NYSE Euronext