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SEC Considers Additional Safeguards to Prevent Market Disruptions

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On August 11, the Chairman of the Securities and Exchange Commission announced that additional measures in response to the May 6 market plunge are being considered. The SEC has undertaken two policy responses already.

First, the SEC approved new rules that require the exchanges and the Financial Industry Regulatory Authority to pause trading in S&P 500 stocks if price fluctuations reach 10% within five minutes. In June, the SEC published for comment proposals to expand these rules beyond the S&P 500 to stocks listed in the Russell 1000 Index and another 344 exchange traded funds.

Second, the SEC published for public comment proposed rules from self-regulatory organizations setting clearer standards for breaking clearly erroneous trades. The SEC is currently reviewing the comments and hopes to approve these rules soon.

In addition to its immediate policy responses to the events of May 6, the SEC will also consider three additional measures to reduce the risk of sudden disruptions and clearly erroneous trades:

1. Deterring or prohibiting the use of "stub" quotes by market makers;
2. Studying the use of trading protocols at individual exchanges (e.g., using trading pauses, price collars and self-help rules); and
3. Instituting limit up/limit down mechanisms.

To read the SEC Chairman's speech to the Commodity Futures Trading Commission-SEC Joint Advisory Committee, click here.

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