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Syracuse & Hirschtritt LLP**

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# GlobalNote®

## SEC APPROVES NEW STOCK-BY-STOCK CIRCUIT BREAKER RULES

**To: Clients and Friends of Tannenbaum Helpern Syracuse & Hirschtritt LLP<sup>1</sup>**

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Earlier this month, the Securities and Exchange Commission (the “SEC” or the “Commission”) approved circuit breaker rules (collectively, the “rules”) that will require the national securities exchanges (the “Exchanges”) and the Financial Industry Regulatory Authority (“FINRA” and, collectively with the Exchanges, “SROs”) to amend certain of their respective rules, or adopt new rules, to provide for trading pauses in individual stocks when the price of a particular stock moves ten percent or more in the preceding five minute period. The rules, proposed by the SROs on May 18 and 19, 2010, were in direct response to the so-called “flash crash” market disruption that occurred in U.S. equity markets on May 6, 2010. During the “flash crash” a large number of individual stocks experienced significant price declines in a very short time period, before suddenly reversing to prices consistent with their pre-decline levels.

As adopted, the rules require the NYSE, NYSEAmex and NASDAQ (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 such security moves ten percent or more from its price in the preceding five-minute period. The Listing Markets will have to notify other Exchanges and market participants of the imposition of the trading pause by immediately disseminating a special indicator over the consolidated tape.<sup>2</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>3</sup> The trading pause requirements would only apply from 9:45 a.m. until

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<sup>1</sup> This GlobalNote® memorandum provides general information on the subject matter described, and it should not be relied on for legal advice on any matter, which may turn on specific facts. You should seek specific legal advice before acting with regard to the subjects discussed herein. For further information, please see the firm’s website: [www.thshlaw.com](http://www.thshlaw.com).

<sup>2</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 Securities Exchange Act of 1934. 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>3</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.

3:35 p.m. in order to avoid interfering with existing procedures designed to facilitate orderly openings and closings. 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.

As proposed by the SROs and adopted by the SEC, these rules will be implemented as a pilot program that will end on December 10, 2010, in order for the SROs and the Commission to assess the effect of the rules on the marketplace. Initially, the rules will only apply to securities included in the S&P 500 Index. The SROs are expected to file additional rule proposals to expand the scope of the pilot within the pilot period. The Commission believes that these rules, which establish consistent, market-wide trading pauses are a means of preventing potentially destabilizing price volatility and will thereby help promote the goals of investor protection and fair and orderly markets.

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If you have any questions or wish to discuss issues or concerns relating to the rules, please do not hesitate to contact us.