



September 23, 2016

**Via Electronic Mail**

The Honorable Mary Jo White  
Chair  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549

**Re: Recommendations on Issues of Market Quality**

Dear Chair White:

Managed Funds Association<sup>1</sup> (“MFA”) is writing to support the recommendations for rulemaking on issues of market quality by the SEC Equity Market Structure Advisory Committee (“EMSAC”), as discussed at the August 2, 2016 meeting.<sup>2</sup> MFA greatly appreciates that the Commission has undertaken a deliberate and data-driven approach in assessing and implementing fundamental changes with respect to market structure. MFA has closely followed the developments and changes in the equity market structure over the past several years given the importance of its impact on investors. MFA has also submitted comments and/or participated in discussions with the SEC staff over the years with respect to the National Market System Plan to Address Extraordinary Volatility (the “**Limit Up/Limit Down Mechanism**”), market-wide circuit breakers, and the market opening.<sup>3</sup>

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<sup>1</sup> Managed Funds Association (“MFA”) represents the global alternative investment industry and its investors by advocating for sound industry practices and public policies that foster efficient, transparent, and fair capital markets. MFA, based in Washington, DC, is an advocacy, education, and communications organization established to enable hedge fund and managed futures firms in the alternative investment industry to participate in public policy discourse, share best practices and learn from peers, and communicate the industry’s contributions to the global economy. MFA members help pension plans, university endowments, charitable organizations, qualified individuals and other institutional investors to diversify their investments, manage risk, and generate attractive returns. MFA has cultivated a global membership and actively engages with regulators and policy makers in Asia, Europe, North and South America, and many other regions where MFA members are market participants.

<sup>2</sup> SEC Announces Agenda for August 2 Meeting of the Equity Market Structure Advisory Committee, SEC Press Release, July 28, 2016, available at: <https://www.sec.gov/news/pressrelease/2016-154.html>.

<sup>3</sup> See, e.g., letter to Members of the Joint CFTC-SEC Advisory Committee on Emerging Regulatory Issues from Stuart J. Kaswell, Executive Vice President & Managing Director, General Counsel, MFA, dated Sept. 12, 2010 on Joint CFTC-SEC Advisory Committee on Emerging Regulatory Issues, available at: <https://www.managedfunds.org/wp-content/uploads/2010/09/MFA-Ltr-on-May-6th-events-9.12.10.pdf>; letter to David Stawick, Secretary, CFTC, and Elizabeth M. Murphy, Secretary, SEC, from Stuart J. Kaswell, Executive Vice President & Managing Director, General Counsel, MFA, dated April 15, 2011 on Recommendations Regarding Regulatory Responses to Market Events of May 6, 2010 by the Joint CFTC-SEC Advisory Committee on Emerging Regulatory Issues, available at: <http://www.managedfunds.org/wp-content/uploads/2011/06/4.15.11-MFA-Jt-Adv-Comm-Recom-final-4-15-11.pdf>; letter to Elizabeth M. Murphy, Secretary, SEC, from Stuart J. Kaswell, Executive Vice President & Managing

MFA believes that, as markets continue to evolve with developments in regulation and technology, it is important to reevaluate the trading regulations and mechanisms that are in place to assess whether they can be improved upon to enhance market quality. Accordingly, MFA commends the EMSAC for raising the below issues on market quality to the Commission's attention, and recommends that the Commission and its staff consider the below issues for rulemaking.

## **I. Limit Up/Limit Down Mechanism**

MFA believes that the Limit Up/Limit Down Mechanism was helpful in addressing extraordinary volatility after the May 6, 2010 flash crash, but should be fine-tuned to enhance market quality. MFA supports the three recommendations of the EMSAC concerning the Limit Up/Limit Down Mechanism, as described by EMSAC:

1. That when a stock is 'stuck' in limit up or limit down that there be no traditional halt to the trading of the stock. Instead, similar to how the futures market behaves, [EMSAC] recommend[s] that the stock would trigger a two minute monitoring period (essentially a limit state). Trading would continue within the limit price, however if the limit condition remains after 2 minutes, the stock would move to a "preopen state". During the pre-open state no matching of orders would be allowed, but orders may be entered, modified, and canceled. At the end of the two minute pre-open state, the market will re-open. The next applicable price limit will apply when trading re-opens.
2. [That] the Clearly Erroneous rules at each exchange conform to the LU/LD bands.
3. [That] the LU/LD bands include the concept of mean reversion, that is that a stock be allowed to trade back to its original price without triggering bands on the way back up.<sup>4</sup>

MFA agrees that these changes to the Limit Up/Limit Down Mechanism are likely to enhance market quality by improving the re-opening process, ensuring consistency with respect to Clearly Erroneous rules among exchanges, and reducing unnecessary halts.

## **II. Market Wide Circuit Breakers**

MFA supports consideration of widening the band for the market-wide circuit breakers, including a review of whether the value of the S&P futures should be used as opposed to the cash value of the S&P 500 Index in calculating the circuit breaker. We share the EMSAC Market Quality Subcommittee's concern that the current 7% band may not be wide enough and could

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Director, General Counsel, MFA, dated June 21, 2011 on Joint Industry "Limit Up-Limit Down" Proposal, available at: <http://www.managedfunds.org/wp-content/uploads/2011/06/MFA-Final-limit-up-limit-down.6.21.11.pdf>; and letter to Elizabeth M. Murphy, Secretary, SEC, from Stuart J. Kaswell, Executive Vice President & Managing Director, General Counsel, MFA, dated Oct. 25, 2011 on Self-Regulatory Organization Proposals to Implement Market-Wide Circuit Breakers, available at: [http://www.managedfunds.org/wp-content/uploads/2011/10/MFA.letter.on\\_market-wide.circuit.breakers1.pdf](http://www.managedfunds.org/wp-content/uploads/2011/10/MFA.letter.on_market-wide.circuit.breakers1.pdf).

<sup>4</sup> Memo to EMSAC from EMSAC Market Quality Subcommittee, dated July 25, 2016 on Recommendations for Rulemaking on Issues of Market Quality, available at: <https://www.sec.gov/spotlight/emsac/emsac-market-quality-subcommittee-recomendation-072516.pdf>.

inadvertently contribute to market chaos and selling pressure.<sup>5</sup> We believe regulators should review whether a wider circuit breaker band around the 10% range is warranted, as well as whether the S&P futures contract should be used as the measure for a market wide circuit breaker.

### III. Market Opening

MFA supports the EMSAC recommendation that the Commission and exchanges should adopt policies and procedures to ensure that all securities open as close to 9:30 am as feasibly and technically possible.<sup>6</sup> We agree that such steps would help prevent corrupt opening values for the index calculations necessary for market-wide circuit breakers and for ETFs that rely on those opening prices; and enhance the Limit Up/Limit Down Mechanism.<sup>7</sup>

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MFA believes that the above recommendations are steps that would help make trading smoother, reduce unnecessary halts and enhance the overall market quality. We would be pleased to further discuss our views with the Commission or its staff. Please do not hesitate to contact Jennifer Han, Associate General Counsel, or the undersigned at (202) 730-2600, with questions or comments.

Respectfully submitted,

/s/ Stuart J. Kaswell

Stuart J. Kaswell  
Executive Vice President & Managing Director,  
General Counsel  
Managed Funds Association

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<sup>5</sup> *Id.*

<sup>6</sup> *Id.*

<sup>77</sup> *Id.*