



August 11, 2016

By U.S. Mail

Mr. Stephen Luparello
Director
Division of Trading and Markets
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090

Re: National Market System Plan to Address Extraordinary Market Volatility (“Plan”)

Dear Mr. Luparello,

On behalf of the Operating Committee (“Committee”) of the Plan, I would like to provide updates to you on the work of the Committee in recent months, and offer insight into our efforts and goals for the upcoming months.

The Committee continues to pursue our goal to strengthen the operation of the Plan in four key areas:

- Reduction of Trading Pauses;
- Elimination of time periods where securities could trade without LULD Price Bands in place;
- Elimination of Clearly Erroneous Executions (“CEE”) and CEE rules when LULD Price Bands are in effect; and
- Standardization of Primary Listing Exchange re-openings following a Trading Pause.

In these efforts, we have also focused on meaningful industry engagement by expanding our Advisory Committee to encompass a broad set of industry participants and leveraging their knowledge and expertise within each of our working groups. The Advisory Committee has been invaluable to the Committee in determining our priorities and working towards solutions that carry the broadest benefits to the industry and the markets.

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Reduction of Trading Pauses and Elimination of “Leaky Bands”

The Primary Listing Exchanges engaged in a coordinated implementation of Amendment 10 of the Plan, which is designed to reduce the number of Trading Pauses. Implemented July 18, 2016, these changes establish a new initial reference price in the event the Primary Listing Exchange opens a security on a quote. Based on the Committee’s research, we believe that establishing initial bands based on the previous day’s closing price rather than the current bid-ask midpoint will result in a significant reduction in Trading Pauses arising from poorly established bands. In the coming months, we will analyze the impact of Amendment 10 and publish the results of our analysis.

Each Plan Participant is also implementing changes to its own market that will eliminate any gap in the application of LULD Price Bands immediately after a security opens or re-opens. Until LULD Price Bands are received by a Plan Participant from the Securities Information Processor (“SIP”) following a security’s opening or re-opening, each Plan Participant has committed to either refrain from trading or calculate and apply synthetic bands. While the current gap represents a small set of potential scenarios, addressing the problem further strengthens the operation of the LULD process. The Committee will continue to look for other such areas to strengthen the operation of the Plan, including alternatives for addressing LULD coverage before 9:35 a.m. in the event of a delayed market opening.

Elimination of Clearly Erroneous Executions

The Plan and the Plan Participants’ CEE rules represent two different approaches to addressing market integrity and stability. We recognize a clear overlap exists in these frameworks, and the potential for confusion arises with the application of two different approaches. Work is underway to identify ways in which the Plan needs to be amended in order to eliminate CEE rules when LULD Price Bands are in effect, except in very limited circumstances (such as a technology impairment).

We believe a data-driven analysis that incorporates feedback from appropriate market participants will allow the Plan to be strengthened in a measured manner while minimizing confusion and any adverse impact of eliminating CEE rules. In support of this effort, the Committee is analyzing the type and quality of CEE events since implementation of Amendment 10. In addition, the Committee is evaluating the following potential adjustments to the Plan’s tiering methodology for three separate, but related, items:

- Place securities in tiers under the Plan based on the security’s trading characteristics (e.g., historical volatility) rather than index designation as the Plan currently requires;
- Assess the most effective number of tiers into which Plan securities will be allocated; and

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- Determine the percentage parameters for the LULD Price Bands for each such tier.

Initial results of the Committee's research point to a number of promising outcomes that are intended to provide a more attuned and preventative set of investor protections in an effort to reasonably eliminate the need for CEE rules. The Committee has also discussed researching the following topics in addition to the proposed adjustments to Plan tiers:

- Eliminating or narrowing the widths of the Percentage Parameters for leveraged Exchange Traded Products;
- Eliminating double-wide Percentage Parameters between 9:30 a.m. ET and 9:45 a.m. ET and between 3:35 p.m. ET and 4:00 p.m. ET;
- Including rights and warrants in the Plan; and
- Applying the Plan to IPOs when trading may naturally result in volatile price movement due to price discovery.

As we begin to formalize and finalize our data analysis, the Committee will continue to engage market participants and make our analysis available for discussion. The Committee believes, and Advisory Committee members concur, that making significant changes to the Plan at the same time could be disruptive, which is why the Committee is focused on providing a pathway to near-term and incremental updates to the Plan. The Committee is working to provide recommendations to address this issue by the end of 2016.

Standardization of Trading Pause Resumptions

Concurrent with the Committee's focus on strengthening the Plan, the industry has expressed the desire to standardize trading practices between trading venues wherever and whenever possible. Functional disparities often create confusion and reduce participation in a market during times of extreme volatility. After the market volatility events that occurred on August 24, 2015, the industry expressed interest in exchanges standardizing re-opening auctions, as functional disparities can create confusion and reduce participation in the market during times of extreme volatility.

Over the past few months, the Plan Participants have agreed to a set of standardized functionalities that would establish more consistency across Primary Listing Exchanges regarding processes for the automated re-opening of a security following a Trade Pause. Our objective is to create a halt resumption process that has the greatest likelihood of producing an equilibrium price, which would also improve the accuracy of the reopening LULD Price Band by centralizing the reopening process through the Primary Listing Exchanges.

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To effectuate these changes, Plan Participants will propose amendments to the Plan. In addition, the Primary Listing Exchanges will propose changes to their automated reopening rules. Specifically, the exchanges propose to make the following enhancements to the process for automated re-opening following a LULD Trading Pause:

- **Auction Information**

The Primary Listing Exchanges will propose changes to encourage the addition of halt extension data to proprietary data feeds. In addition, the Primary Listing Exchanges will propose SIP enhancements to ensure the broadest possible distribution of data related to Trading Pause resumption.

- **Auction Extension Harmonization**

The Plan currently provides that a Primary Listing Exchange may re-open trading following a LULD Trading Pause at the end of the five-minute pause period. After a period of ten (10) minutes after the initial pause, if the Primary Listing Exchange does not re-open, the SIP will disseminate LULD bands and trading can resume on non-primary markets.

The Plan amendment being considered would no longer permit exchanges other than the Primary Listing Exchange to initiate trading following a Trading Pause and, in concert with this change to the Plan, the Primary Listing Exchanges intend to amend their individual rules to enhance their automated reopening functionalities in the following ways:

- ✓ The first Trading Pause (Auction) period will be for five (5) minutes;
- ✓ At the conclusion of this initial auction period, the Primary Listing Exchange will attempt to conduct a re-opening auction;
- ✓ There are two auction protections that, if exceeded, will cause the auction to be extended:
 - If the expected auction price is outside of predefined price thresholds; or
 - If there is a market order share imbalance; and
- ✓ The auction will continue to be extended in discrete five-minute increments, while simultaneously widening the price thresholds until the auction is resolved.

- **Price Threshold Calculation**

The Primary Listing Exchanges intend to propose a simple time and percentage function to gradually widen price thresholds during an automated re-opening process, which would allow for price reversion to occur. Specifically:

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- ✓ As the auction is extended in five-minute increments, price thresholds will be expanded concurrently in the amount of five percent, regardless of LULD tier association; and
- ✓ The limiting threshold will continue to be adjusted in five percent increments in the:
 - direction of the initial limiting band infraction;
 - direction of the auction price violation; or
 - direction of the share imbalance.

We expect to have a LULD Plan amendment and individual exchange rule amendments to address standardization of Trading Pause resumptions submitted no later than the end of the third quarter of 2016.

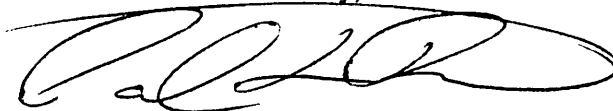
In addition to increased transparency and standardized functionality, the Primary Listing Exchanges have also begun discussing ways in which to increase the likelihood of a positive outcome from a Trading Pause. This includes ideas such as encouraging non-primary markets to send routable orders received during the Trading Pause to the Primary Listing Exchange.

Last, given the number of conversations in the industry, including the Equity Market Structure Advisory Committee, the Committee also recognizes the validity of other suggested changes, such as adjusting Price Bands during Limit States and extending Limit States. While there have been many discussions on such changes, the Committee believes that those changes would take substantially more time to research, approve and implement, and would be better suited for longer term enhancements to the Plan as compared to the more immediate goals outlined herein. There is a continuing effort to incorporate new ideas and suggestions to the Committee's areas of focus, and we welcome new proposals and supporting research.

As the Committee strives to maintain its pace of progress while increasing the degree of inclusion and transparency in the process of considering changes to strengthen the Plan, I encourage those with an interest and willingness to participate to contact the Committee to stay engaged in the process.

We thank Commission staff for their input and guidance, and welcome any questions that you or staff may have. Please do not hesitate to contact me at [REDACTED].

Sincerely,



Paul Roland

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Chair, Operating Committee

cc: The Honorable Mary Jo White, Chair
The Honorable Michael S. Piwowar, Commissioner
The Honorable Kara M. Stein, Commissioner