

# FINANCIAL INFORMATION FORUM

December 13, 2012

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

RE: Release No. 34-64547; File No. 4-631, Joint Industry Plan; National Market System Plan to Address Extraordinary Market Volatility; and Market Wide Circuit Breakers (Release No. 34-67090; File Nos. SR-BATS-2011-038; SR-BYX-2011-025; SR-BX-2011-068; SR-CBOE-2011-087; SR-C2-2011-024; SR-CHX-2011-30; SR-EDGA-2011-31; SR-EDGX-2011-30; SR-FINRA-2011-054; SR-ISE-2011-61; SR-NASDAQ-2011-131; SR-NSX-2011-11; SR-NYSE-2011-48; SR-NYSEAmex-2011-73; SR-NYSEArca-2011-68; SR-Phlx-2011-129)

Dear Robert,

The Financial Information Forum (FIF)<sup>1</sup> Limit Up-Limit Down Working Group (FIF LULD Working Group) has been actively engaged in addressing implementation issues associated with the NMS Plan to Address Extraordinary Volatility also known as Limit Up-Limit Down (“LULD”). We understand the importance of implementing extraordinary market volatility measures and have a broad base from which to appreciate the magnitude of this market structure change. Our goal is to implement LULD and Market-Wide Circuit Breakers in a manner that reduces confusion and minimizes risk. We believe that a full deployment of LULD for Phase 1 securities, shortly after year-end code freezes and with no production testing, introduces unnecessary risk to the marketplace. To that end, FIF recommends the following:

1. Move the implementation date of LULD and Market-Wide Circuit Breakers to March 25, 2013
2. Begin implementation of LULD with only test securities, starting on March 25, 2013
3. Perform a gradual rollout of production symbols, starting with a small subset of Phase 1 securities

## **Additional Implementation Time Required**

The FIF LULD Working Group believes that additional time is required to implement and thoroughly test changes required by LULD. As detailed below, at this time final requirements needed to complete development and internal testing are unavailable.

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<sup>1</sup> FIF ([www.fif.com](http://www.fif.com)) was formed in 1996 to provide a centralized source of information on the implementation issues that impact the financial technology industry across the order lifecycle. Our participants include trading and back office service bureaus, broker-dealers, market data vendors and exchanges. Through topic-oriented working groups, FIF participants focus on critical issues and productive solutions to technology developments, regulatory initiatives, and other industry changes. This comment letter is based on feedback from FIF broker-dealers and vendors.

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## Integrating Vendor Changes Requires Additional Time

It is important to understand that the SIP feed changes for LULD and Market Wide Circuit Breakers are part of the same software release. Additional implementation time granted for LULD should also apply to Market Wide Circuit Breakers in order for those software release changes to continue to be synchronized, as originally planned. Changes to the SIP feeds will require corresponding changes to market data vendor systems as well as downstream applications that consume vendor market data. While most vendors have committed to a December release of specifications, this does not allow firms to integrate that market data into downstream applications in time to participate in industry tests. This is especially problematic given that year-end code freezes typically extend into the first week of January.

Additionally, the current schedule does not allow sufficient time to respond to problems discovered in testing. With current test dates ending so close to the implementation date, there is a very narrow time window to make modifications necessitated from test results and to then adequately test those new modifications.

FIF recommends moving the implementation date to March 25, 2013 and beginning industry testing in mid-February. There should be sufficient time between tests to allow for software modifications to be developed and internally tested before subsequent industry tests. Industry test results should be evaluated prior to proceeding with the March 25, 2013 implementation date.

## Open SRO/SEC Issues Impact Requirements

The following issues remain open and may have an impact on system functionality, requiring new development and adequate testing:

### **1. Equity exchange order/execution behavior**

Firms need to understand the impact of LULD on order types, especially as it relates to new market orders, posted orders, discretionary orders, and pegged orders. Exchanges plan to either cancel or reprice orders with different logic and repricing priority mechanisms. Smart order routing systems of broker dealers need to update their logic accordingly. While FIF LULD Working Group members have a preliminary understanding of how many of the exchanges will operate, requirements are not final until filings are approved. The issuance of FAQs to guide development so far has been very limited.<sup>2</sup>

### **2. Options market behavior during limit and straddle states**

FIF LULD Working Group members have a preliminary understanding of how the options markets will operate when LULD is in effect. However, until filings are approved, requirements cannot be finalized.

### **3. Primary market responses to the unexpectedly high number of straddle state instances.**

It is our understanding that recent studies have indicated a significant number of straddle state instances. As a result, the primary markets were discussing formalizing behavior for securities in a straddle state.

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<sup>2</sup> At this time, only BATS has filed a FAQ related to order and execution behavior on their equities exchanges.

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## **4. Updates to Market-wide Clearly Erroneous Rule as a result of LULD**

It is our understanding that the SROs are currently discussing this issue. Clearly Erroneous rules may not be necessary if exchanges are canceling or repricing but the rules may stay in effect.

## **5. Rule 605 Impact**

Under LULD, there will be scenarios (straddle or limit state) in which orders will be impacted in such a way that they will be marketable and potentially counted for Rule 605 purposes but will not be executable. It is unclear if these orders will be excluded from Rule 605.

## **6. Satisfying FINRA Rule 5320 .07 Obligation to Cross Stock During Limit or Straddle State**

There has been no guidance indicating what a firm should do when the market is in a Limit or Straddle state and the firm is required, for example, to cross a market order to sell with a limit order to buy but cannot because the stock is in a limit or straddle state and the national best bid is below the lower band.

## **7. LULD Impact on Other FINRA Rules**

There has been no guidance on how LULD impacts other rules including best execution. We are seeking guidance indicating all relevant rules that will be impacted by LULD including rules that cover principal facilitation purchases, principal facilitation sales, and agency crosses.

### **Need for Production Testing Using Test Securities**

The SEC's Roundtable on Technology and Trading discussed the use of test symbols in production, with panelists advocating its use. Testing in production is especially important for market data related changes because those changes are typically hot-cut releases of a new feed format. Allowing use of test securities in production will offer firms that are either direct feed recipients or vendor system clients the opportunity to interact with price bands and LULD functionality in advance of LULD implementation in actual securities. FIF recommends some degree of scripting with respect to the use of test securities in production so that test security prices do not fluctuate dramatically.

FIF recommends disseminating price bands only in test securities to reduce confusion and eliminate the risk to systems that may be using price bands to trigger LULD functionality.

### **Gradual Rollout to Minimize Impact on National Market System**

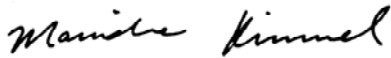
Rather than beginning with a full rollout of all Phase 1 securities, FIF recommends starting the production rollout with a small subset of Phase 1 securities and continuing with a gradual rollout thereafter. This will minimize the impact of any exchange or firm issues with LULD functionality that may not have been detected throughout the course of testing.

We support maintaining the August 15, 2013 date for Phase 2. Experience from Phase 1 should be examined to determine Phase 2 testing and rollout needs.

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We appreciate the Commission's consideration of our request. Given the closeness of the February 4, 2013 deadline, we urge the Commission to take action as quickly as possible so firms can proceed with certainty.

Regards,



Manisha Kimmel  
Executive Director  
Financial Information Forum

cc: Mary L. Schapiro, Chairman  
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