

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-74323; File No. 4-631)

February 19, 2015

Joint Industry Plan; Order Approving the Eighth Amendment to the National Market System Plan to Address Extraordinary Market Volatility by BATS Exchange, Inc., BATS Y-Exchange, Inc., Chicago Board Options Exchange, Incorporated, Chicago Stock Exchange, Inc., EDGA Exchange, Inc., EDGX Exchange, Inc., Financial Industry Regulatory Authority, Inc., NASDAQ OMX BX, Inc., NASDAQ OMX PHLX LLC, The Nasdaq Stock Market LLC, National Stock Exchange, Inc., New York Stock Exchange LLC, NYSE MKT LLC, and NYSE Arca, Inc.

I. Introduction

On December 24, 2014, Financial Industry Regulatory Authority, Inc. (“FINRA”), on behalf of the following parties to the National Market System Plan: BATS Exchange, Inc., BATS Y-Exchange, Inc., Chicago Board Options Exchange, Incorporated, Chicago Stock Exchange, Inc., EDGA Exchange, Inc., EDGX Exchange, Inc., NASDAQ OMX BX, Inc., NASDAQ OMX PHLX LLC, the Nasdaq Stock Market LLC, National Stock Exchange, Inc., New York Stock Exchange LLC, NYSE MKT LLC, and NYSE Arca, Inc. (collectively with FINRA, the “Participants”), filed with the Securities and Exchange Commission (“Commission”) pursuant to Section 11A of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 608 thereunder,<sup>2</sup> a proposal to amend the Plan to Address Extraordinary Market Volatility (“Plan”).<sup>3</sup> The proposal represents the eighth amendment to the Plan (“Eighth Amendment”), and reflects proposed changes unanimously approved by the Participants. The Eighth Amendment was published for comment in the Federal Register on January 27, 2015.<sup>4</sup> The Commission has

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<sup>1</sup> 15 U.S.C. 78k-1.

<sup>2</sup> 17 CFR 242.608.

<sup>3</sup> See Letter from Christopher B. Stone, Vice President, FINRA, to Brent Fields, Secretary, Commission, dated December 24, 2014 (“Transmittal Letter”).

<sup>4</sup> See Securities Exchange Act Release No. 74110 (January 21, 2015), 80 FR 4321

received no comment letters regarding the Eighth Amendment. This order approves the Eighth Amendment to the Plan.

II. Description of the Proposal

A. Eighth Amendment to the Plan

The Eighth Amendment includes two proposed changes to the Plan. First, the Participants propose to amend the Plan to establish a requirement for the Participants to submit a Supplemental Joint Assessment to the Commission by May 29, 2015. Second, the Participants propose to extend the end date of the pilot period of the Plan from February 20, 2015 to October 23, 2015.

B. Background and Purpose of the Plan

The Plan, approved by the Commission in March 2012,<sup>5</sup> establishes a market-wide limit up-limit down mechanism that is intended to address extraordinary market volatility in “NMS Stocks,” as defined in Rule 600(b)(47) of Regulation NMS under the Act.<sup>6</sup> The Plan sets forth limit up-limit down requirements designed to prevent trades from occurring outside specified Price Bands.<sup>7</sup> These limit up-limit down requirements are coupled with Trading Pauses, as defined in the Plan, to accommodate more fundamental price moves (as opposed to erroneous trades or momentary gaps in liquidity). The limit up-limit down mechanism is intended to reduce the negative impacts of sudden, unanticipated price movements in NMS Stocks, such as those experienced on May 6, 2010, thereby protecting investors and promoting a fair and orderly

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(“Notice”).

<sup>5</sup> See Securities Exchange Act Release No. 67091, 77 FR 33498 (Jun. 6, 2012) (File No. 4-631).

<sup>6</sup> 17 CFR 242.600(b)(47). See also Section I(H) of the Plan.

<sup>7</sup> See Section V of the Plan.

market. The initial date of Plan operations was April 8, 2013.<sup>8</sup>

### III. Discussion and Commission Findings

After careful review, the Commission finds that the Eighth Amendment is consistent with the requirements of the Act and the rules and regulations thereunder.<sup>9</sup> Specifically, the Commission finds that the Eighth Amendment is consistent with Section 11A of the Act<sup>10</sup> and Rule 608 thereunder<sup>11</sup> in that it is appropriate in the public interest, for the protection of investors and the maintenance of fair and orderly markets, and that it removes impediments to, and perfects the mechanism of, a national market system.

The Supplemental Joint Assessment will evaluate the impact of the Plan using the measures set forth in Appendix B of the Plan<sup>12</sup> and provide the Commission with an extensive

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<sup>8</sup> See Securities Exchange Act Release No. 68953 (February 20, 2013), 78 FR 13113 (February 26, 2013).

<sup>9</sup> In approving the Eighth Amendment, the Commission has considered its impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

<sup>10</sup> 15 U.S.C. 78k-1.

<sup>11</sup> 17 CFR 242.608.

<sup>12</sup> Appendix B of the Plan requires the Participants to: (a) assess the statistical and economic impact on liquidity of approaching Price Bands; (b) assess the statistical and economic impact of the Price Bands on erroneous trades; (c) assess the statistical and economic impact of the appropriateness of the Percentage Parameters used for the Price Bands; (d) assess whether the Limit State is the appropriate length to allow for liquidity replenishment when a Limit State is reached because of a temporary liquidity gap; (e) evaluate concerns from the options markets regarding the statistical and economic impact of Limit States on liquidity and market quality in the options markets; (f) assess whether the process for entering a Limit State should be adjusted and whether Straddle States are problematic; (g) assess whether the process for exiting a Limit State should be adjusted; and (h) assess whether the Trading Pauses are too long or short and whether the reopening procedures should be adjusted.

These areas are intended to capture the key measures necessary to assess the impact of the Plan and, if and where appropriate, to support recommendations relating to the calibration of the Percentage Parameters to help ensure that the stated objectives of the Plan are achieved.

cross-market data analysis using methodology agreed upon by the Participants.<sup>13</sup> The Participants stated that they intend to engage a third-party consultant to assist in conducting the cross-market analysis and preparing the Supplemental Joint Assessment.<sup>14</sup> The Participants believe that the Supplemental Joint Assessment will facilitate the development of unified recommendations, if and where appropriate, regarding operation of the Plan.<sup>15</sup> The Participants also state that they intend to make the Supplemental Joint Assessment publicly available.<sup>16</sup>

The Participants further believe that extending the end date of the pilot period will: (i) provide the Participants with time to use the information collected during the operation of the Plan to perform further analysis and recommend further amendments to the Plan, as necessary; (ii) provide a reasonable period of time for the public to comment on the Supplemental Joint Assessment and recommendations; and (iii) allow the Commission and the public adequate time to review the Supplemental Joint Assessment and any recommendations provided by the Participants, and to determine if any modifications to the Plan are appropriate.<sup>17</sup>

The Commission believes that the Supplemental Joint Assessment and any resulting recommendations for modifications to the Plan from the Participants, along with any public comment in response thereto, will assist the Commission in assessing the operation of the Plan and in considering any future determinations regarding the Plan.

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<sup>13</sup> See Notice, supra, note 4 at 4323.

<sup>14</sup> See id. More recently, however, the Participants notified Commission staff that they have engaged a third-party consultant. Telephone conversation between Chris Grobbel, Attorney-Adviser, Commission, and Thushara Therrien, Director - Transparency Services, FINRA (February 3, 2015).

<sup>15</sup> See Notice, supra, note 4 at 4323.

<sup>16</sup> See id.

<sup>17</sup> See id.

For the reasons noted above, the Commission finds that the Eighth Amendment to the Plan is consistent with Section 11A of the Act<sup>18</sup> and Rule 608 thereunder.<sup>19</sup> The Commission reiterates its expectation that the Participants will continue to monitor the scope and operation of the Plan and study the data produced, and will propose any modifications to the Plan that may be necessary or appropriate.<sup>20</sup>

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 11A of the Act<sup>21</sup> and Rule 608 thereunder,<sup>22</sup> that the Eighth Amendment to the Plan (File No. 4-631) be, and it hereby is, approved.

Brent J. Fields  
Secretary

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<sup>18</sup> 15 U.S.C. 78k-1.

<sup>19</sup> 17 CFR 242.608.

<sup>20</sup> See Securities Exchange Act Release No. 67091 (May 31, 2012), 77 FR 33498 (June 6, 2012).

<sup>21</sup> 15 U.S.C. 78k-1.

<sup>22</sup> 17 CFR 242.608.