U.S. Securities and Exchange Commission Chairman Mary L. Schapiro
Opening Statement
CFTC-SEC Joint Advisory Committee Meeting
Washington, DC
August 11, 2010

Thank you Chairman Gensler, and thank you for hosting the meeting today. I also would like to welcome our Committee members and thank you for the time and effort you have invested over the past few months as we continue our review of the events of May 6.

As part of the SEC and CFTC review of market events on May 6, we are pursuing two related courses of inquiry. The first is empirical and data driven. SEC staff have been reviewing raw transaction and order data, order book "snapshots," trade summaries, information about broken trades, and information related to initiation of LRPs and self-help. The second is focused on extensive interviews with market participants -- their first-hand accounts of what occurred on May 6 and their responses to those events. These efforts will culminate in an SEC-CFTC joint report that will be presented to this Committee for its consideration next month and, of course, shared with the public, as well.

As part of our review, we have sought input from institutions and individuals who can help us build an understanding of what happened, how it affected market participants, and how we might best avoid future events of this type. At our last Joint Advisory Committee meeting, representatives of the various exchanges discussed their experiences and their observations of the markets on May 6. Significant market participants also shared their views and observations regarding liquidity, trading, and the apparent breakdown of an orderly market.

Today, the Committee will hear panelists describe the impact of May 6 from the perspective of investors – both large and small. The investor perspective is crucial to understanding these events and to fostering stronger capital markets.

As you know, following May 6, the SEC undertook two immediate policy responses. The first was to work with the exchanges and FINRA to develop new stock-by-stock circuit breaker rules. These rules, which were approved by the SEC on June 10, require the exchanges and FINRA to pause trading in S&P 500 stocks when they experience a 10 percent change in price over a five minute period.

This pause, currently applied on a pilot basis, gives the markets the opportunity to attract new trading interest in an affected stock, establish a reasonable market price, and resume trading in a fair and orderly fashion. In June, we published for comment proposals by the exchanges and FINRA to expand this program to include all stocks listed in the Russell 1000 Index, as well as 344 specified exchange traded funds. We are currently reviewing the comments received and I hope we will have approval of this phase of circuit breakers soon.

The second policy response was to work with the exchanges on amending their rules for breaking clearly erroneous trades. As the Committee heard previously, after May 6 the exchanges and FINRA exercised their existing authority to break clearly erroneous trades that were effected that day at prices 60% or more away from pre-decline prices. The process used to draw that line, however, was neither clear nor transparent to market participants. SEC Staff received reports that the lack of clear guidelines for dealing with clearly erroneous transactions, and the lack of transparency surrounding the decision to break certain trades, created uncertainty for investors and others about how such transactions would be handled in the future. The proposed rule changes are designed to address these concerns by setting clearer standards for breaking trades, and curtailing the discretion of the exchanges and FINRA. These proposed rules were published for public comment in June and we are now reviewing the comments received.

We are considering, as well, whether other steps are appropriate to reduce the risk of sudden disruptions and clearly erroneous trades, including deterring or prohibiting the use of "stub" quotes by market makers. And we are studying the impact of trading protocols at individual exchanges, including the use of trading pauses, price collars, and self-help rules. Finally, we are looking closely at other mechanisms that may contribute to a more stable market, such as instituting limit up/limit down mechanisms. As we continue to examine these and other issues and to consider actions that may further protect investors and stabilize financial markets, it is critical to hear a variety of informed views. Today's guests will, I'm sure, not only shed more light on May 6th, but provide some of those knowledgeable perspectives we need.

Thanks to all of our guests for being here today.

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