

**JOINT CFTC-SEC ADVISORY COMMITTEE
ON EMERGING REGULATORY ISSUES**

Minutes of August 11, 2010 Meeting

The Joint CFTC-SEC Advisory Committee on Emerging Regulatory Issues (“Advisory Committee”) convened its third meeting at 9:00 a.m. on Wednesday August 11, 2010 in the Hearing Room at the Headquarters of the Commodity Futures Trading Commission, located at Three Lafayette Centre, 1155 21st St. NW, Washington, D.C. The meeting, which was open to the public, was held to provide the Advisory Committee an opportunity to hear the views of panelists representing various investor perspectives regarding the events of May 6, 2010. The agenda for the meeting included: (i) introductions of the Advisory Committee members and opening remarks by the co-chairs, (ii) a panel discussion on investor perspectives, (iii) reports by the staffs of the CFTC and SEC regarding recent calls with the Subcommittees, and (iv) closing discussion and comments. The meeting concluded at approximately 12:30 p.m.

Advisory Committee Members:

CFTC Chairman Gary Gensler, Advisory Committee Co-Chair
SEC Chairman Mary Schapiro, Advisory Committee Co-Chair
Brooksley Born**
Jack Brennan
Robert Engle
Rick Ketchum
Maureen O’Hara
Susan Phillips*
David Ruder
Joseph Stiglitz

* Present by telephone

** Not present

Co-Designated Federal Officers:

James Burns Counsel to SEC Chairman Schapiro
Timothy Karpoff Counsel to CFTC Chairman Gensler

Commissioners of the CFTC in attendance:

From the CFTC:

Commissioner Bart Chilton
Commissioner Michael Dunn
Commissioner Jill Sommers

Panel Discussion: Investor Perspectives on May 6

Noel Archard,	Head of U.S. Products, Blackrock
Pamela J. Craig	Chief Financial Officer, Accenture
Kevin Cronin	Director of Global Equity Trading, Invesco
Michael Mendelson	Principal, AQR Capital Management
Chris Nagy	Managing Director, Order Routing Sales and Strategy, TD Ameritrade
Charles Rotblut	Vice President and Editor, American Association of Individual Investors

CFTC and SEC Staff Presenters:

From the CFTC:

James Moser Acting Chief Economist, Office of the Chief Economist

From the SEC:

Gregg Berman Senior Advisor to the Director, Division of Trading and Markets

CFTC and SEC Staff in Attendance:

From the CFTC:

James Moser Acting Chief Economist, Office of the Chief Economist

From the SEC:

Robert Cook	Director, Division of Trading and Markets
Michael Coe	Counsel, Commissioner Aguilar
David Hsu	Assistant Director, Division of Trading and Markets

I. OPENING REMARKS AND INTRODUCTION OF ADVISORY COMMITTEE MEMBERS

Chairman Gensler opened the meeting by welcoming members of the Advisory Committee, Commissioners and staff of the CFTC and SEC, and guests in attendance for the third meeting of the Joint CFTC-SEC Advisory Committee on Emerging Regulatory Issues. Chairman Schapiro also offered her welcome, thanked those in attendance, and provided opening remarks. Chairman Gensler thanked the staff of the CFTC and introduced and welcomed the Advisory Committee members and panelist.

II. INTRODUCTION AND QUESTIONING OF THE PANEL

Chairman Gensler then welcomed the panel of witnesses, who each made opening statements. The panel focused on investor perspective of the events of May 6th, 2010 and included representatives of exchange traded funds (ETFs), institutional investors, retail investors, and corporations. Each member of the panel answered questions as presented by the Advisory Committee.

III. PRESENTATION BY CFTC AND SEC STAFF ON RECENT SUBCOMMITTEE CALLS

Following the presentations by the panel, and after a brief break, the Advisory Committee received updates from CFTC and SEC staff regarding Subcommittee calls and the research presented therein.

A. CFTC Staff Presentation

James Moser, Acting Chief Economist from the CFTC's Office of the Chief Economist, presented an update of two calls held with the Cross Market Linkages Subcommittee, whose members include: Brooksley Born, Jack Brennan, David Ruder, and Joseph Stiglitz.

July 6th Conference Call

E-Mini S&P Futures Trading Volume. Staff discussed their findings regarding high trading activity on May 6th, both at the point when prices began to significantly decline, and then at another point ten minutes before the close. Comparing these to price changes, no clear pattern emerges; however at the price trough passive buy volume much exceeded aggressive buy volume. In a plot of differences between aggressive buy and sell activity, aggressive selling is more prevalent than aggressive buying, with that difference increasing throughout the afternoon and reaching a minimum at the time of the sharp price decline. A rebound in the aggressive buy-sell difference also coincides with the price rebound.

E-Mini Order Book. In regards to the E-Mini order book, staff used CME-supplied GLOBEX message data and re-constructed the limit-order book for the E-mini contract for the 6th of May. Plotting the near-inside order book depth (best five bids and best five offers), the order book appears to have been well balanced with the number of buy orders generally close to the number of sell orders. At about 2:30 p.m. ET, there was a sharp drop off on both sides of the near-inside order book with the drop off in orders to buy slightly leading, then matching orders to sell. Just prior to 3:00 p.m., orders to sell spiked followed by a recovery period as the order book filled in approaching its earlier levels. Staff has recently obtained order-book data for other days, which will be compared to the May 6th order book activity.

July 29 Conference Call

Trader Classification and Trader Behavior in the June 2010 E-mini futures contract. During the July 29 call, staff compared data based upon the pre-event period (the three days preceding May 6th) to the trading behavior on May 6 to classify accounts as either market marketers, high-frequency traders, buyers, sellers, opportunistic traders, or noise traders. Staff noted that the largest differences are for the Seller and Opportunistic Seller categories. Seller activity as a percentage of trades decreased from 10.10% in the pre-event period to 6.95% in the event period. Opportunistic Trader activity increased from

33.34% in the pre-event period to 40.13% in the event period. Also, staff noted that Noise Trader activity, albeit relatively small in both periods, did drop by half—going from 2.22% of trades in the pre-event period to 1.04% of trades in the event period. Staff will continue their analysis of this data and the results of this analysis will be presented in future reports.

B. SEC Staff Presentation

Gregg Berman, Senior Advisor to the Director, from the SEC’s Division of Trading and Markets, presented an update of two calls held with the Pre-Trade Risk Management Subcommittee, whose members include: Robert Engle, Rick Ketchum, Maureen O’Hara, and Susan Phillips.

July 7 Conference Call

Direct Insights from Market Participants. Staff discussed preliminary observations of SEC interviews held to-date with market participants. Staff reported that most of the firms interviewed significantly curtailed or completely halted their market making activities during and immediately after the rapid downturn in prices at or around 2:40 on the afternoon of May 6th. As automated trading systems paused some market makers withdrew completely from the markets and relied on auto-generated stub quotes to fulfill their market maker obligations. Others fell back to manual trading but had to limit their focus to only a subset of securities and were not able to keep up with the unprecedented volumes that were ever more concentrated as market makers in similar securities withdrew. Through the interview process Staff was able to trace back a significant number of trades executed at stub-quotes, and that were subsequently deemed erroneous and broken by the exchanges later that evening.

July 29 Conference Call

ETFs, LRPs, and the Self-Help Exception. Three presentations were given to the Pre-Trade Risk Management Subcommittee. The first was given by the SEC’s Division of Investment Management and covered exchange traded funds (ETFs) It provided a background on the ETF markets and how trading of ETFs differs from other similar instruments such as open-ended mutual funds. The second presentation was given by the New York Stock Exchange regarding its use of Liquidity Replenishment Points (LRPs), which represent price bands within which an individual security can trade in an automated fashion. The third presentation was given by the SEC’s Division of Trading and Markets and covered the “Self-Help Exception” to Rule 611 of Regulation NMS, which generally requires trading centers to implement reasonable policies and procedures to prevent trade-throughs of protected quotations at other markets.

IV. CLOSING DISCUSSION AND COMMENTS

Following this presentation, Chairman Gensler opened the meeting up for statements, questions, and discussion from the Advisory Committee members and the Commissioners and Staff from

both the CFTC and the SEC. After the comments, Chairman Gensler opened discussion of the minutes of the June 22nd Meeting of the Advisory Committee for approval. There being no discussion, a motion to approve the minutes was made, seconded, and approved by a unanimous vote.

Following approval of the minutes, Chairman Gensler asked if there was any other Advisory Committee business. Hearing none, a motion to adjourn the meeting was made, the motion was seconded, and the members voted to adjourn the meeting. The meeting was adjourned at 12:36 p.m.

CO-CHAIR CERTIFICATION

I hereby certify the accuracy of this record of the proceedings of the Joint CFTC-SEC Advisory Committee on Emerging Regulatory Issues.

/s/ Gary Gensler

November 9, 2010

Gary Gensler, CFTC Chairman
Advisory Committee Co-Chair

Date

CO-CHAIR CERTIFICATION

I hereby certify the accuracy of this record of the proceedings of the Joint CFTC-SEC Advisory Committee on Emerging Regulatory Issues.

/s/ Mary L. Schapiro

November 7, 2010

Mary L. Schapiro, SEC Chairman
Advisory Committee Co-Chair

Date