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At
Joint CFTC-SEC Advisory Committee on Emerging Regulatory Issues
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Chairman Shapiro, Chairman Gensler and Members of the Advisory Committee. Thank you for the opportunity to appear today. We applaud the SEC and CFTC for their proactive response to May 6th, including the SEC's leadership in establishing a market-wide audit trail and single stock circuit breakers.

Today I would like to discuss three things:

• First, the high-level causes of the May 6th events;

• Second, clarifications about NYSE's market model and how it worked on May 6th; and

• Third, our recommendations going forward.

The Events of May 6th

Plenty has been said about May 6th, but the bottom line is we see no evidence of a primary contributing factor to the events of that day as a result of market manipulation, automated trading or otherwise.

However, we did see the following:

• Elevated market activity coming from adverse European news, including a massive and broad-based wave of orders and quotes at around 2:40 p.m.;

• A significant reduction in marketplace liquidity as measured by the size of order books through the day, which accelerated dramatically through the downturn; and

• Various microstructure issues which exacerbated the liquidity effect.

The NYSE's Market Model and Action on May 6th

Now I'd like to turn to the NYSE market model and how our actions on May 6th reduced volatility, to the benefit of investors and listed companies alike.

NYSE has embraced electronic trading. We believe our market model provides the best combination of cutting-edge technology with human judgment. NYSE market rules expressly provide circuit breaker mechanisms -- known as Liquidity Replenishment Points, or LRPs -- that mitigate volatility and large price swings. In essence, at the NYSE, we have emphasized price discovery over speed.

LRPs temporarily and automatically pause trading in stocks when significant price movement occurs. On a typical day, LRPs are triggered a few hundred times, lasting generally for seconds at most. LRPs do not halt trading. When LRPs are in effect, our quote is visible to other market participants and new orders are accepted.

I want to highlight a few specifics.

• First, on May 6th during the 2:30 to 3:00 period, market share on the NYSE was five percentage points higher than usual during that time of day, and the participation rate of our Designated Market Makers (formerly known as Specialists) and Supplemental Liquidity Providers was equally strong. This is evidence that our liquidity providers did not walk away from the market, as we actively traded during the downturn.

• Furthermore, to demonstrate that LRPs protected orders in our market, stocks listed on other markets had price declines and erroneous executions far more numerous than NYSE-listed stocks.

• Lastly, the overall marketplace needed to cancel approximately 15,000 executions after Thursday's decline. On NYSE – even though we handled the largest share of orders in the marketplace – we had to cancel ZERO trades. In fact, 85% of the trades that ultimately were canceled were securities that were not even listed on the New York Stock Exchange.

Overall, LRPs worked reasonably well on May 6th, and the response from issuers and investors has been uniformly positive. However, the mechanism is only truly effective if observed by other trading venues, and we applaud the leadership of Chairman Schapiro and the SEC in helping create an industry-wide trading circuit breaker.

We also believe there is a need to examine the ripple effect of stock volatility in the ETF market and make sure these are included in circuit breaker considerations.

Regulatory Proposals

In terms of recommendations, I want to make four points.

First, the current market-wide circuit breakers were established long ago and are based on market moves of 10%, 20% and 30%. There has not been a move greater than 10% in a single day post 2000. We believe a potential tightening of these levels as well as broadening of the index measure could be helpful in reducing confusion should a large number of single stock circuit breakers be triggered.

Second, we are working with regulators and other exchanges to establish clearer rules for the cancellation of trades. In fact, I would submit that the need to frequently cancel trades is a sign of a market structure that does not function properly.

Third, brokers and their clients need to review their order routing practices to ensure that investors are getting the best prices, and also explore whether market orders and Stop Loss orders are properly servicing the investing public.

Fourth, we support establishment of a consolidated audit trail that would allow regulators to easily review market-wide trade data, as the SEC has proposed. Ultimately, these and other important actions may be best achieved by consolidating market surveillance in one securities regulatory organization, such as FINRA and assuring that the costs associated with implementation are spread across market participants.

Conclusion

In closing, we applaud the SEC and the CFTC for their leadership in addressing the market structure issues that were illuminated on May 6th. NYSE Euronext is committed to working with all parties to improve our market, to the benefit of issuers and investors alike.

Thank you and I’m happy to answer any questions you have.