

Corporate & Financial Weekly Digest

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[SEC Seeks Public Comment on Proposed Rules for Clearly Erroneous Trades](#)

On June 17, the Securities and Exchange Commission announced that the exchanges and the Financial Industry Regulatory Authority filed proposed rules to implement a series of thresholds for breaking erroneous trades. Currently, the exchanges and Electronic Communications Networks all treat clearly erroneous trades differently with respect to thresholds and timing for reporting such trades. The current proposal comes in response to the May 6 market disruption and complements the SEC's recent approval of stock-by-stock circuit breakers. "Establishing clear and transparent standards for breaking trades helps provide certainty in advance as to which trades will be broken, and allows market participants to better manage their risks," said SEC Chairman Mary Schapiro.

Under the proposed rules for stocks in the S&P 500 Index, stock trades would be broken if the transaction price falls too far below the last sale price:

- For stocks priced \$25 or less, trades would be broken if the trades are at least 10% away from the circuit breaker trigger price.
- For stocks priced \$25 to \$50, trades would be broken if the trades are 5% away from the circuit breaker trigger price.
- For stocks priced more than \$50, trades would be broken if the trades are 3% away from the circuit breaker trigger price.

For all stocks not included in the S&P 500 Index, stock trades would be broken at specified levels for events involving multiple stocks depending on how many stocks are involved:

- For events involving between 5 and 20 stocks, trades would be broken that are at least 10% away from the last sale price.
- For events involving more than 20 stocks, trades would be broken that are at least 30% away from the last sale price.

The proposed rules, which are proposed to be in effect on a pilot basis until December 10, will be published in the Federal Register for a 21-day public comment period.

To read the SEC's order addressed to FINRA requesting comment, click [here](#).

See also the June 11 edition of [Corporate and Financial Weekly Digest](#) discussing the SEC's approval of rules requiring the exchanges and FINRA to implement stock-by-stock circuit breakers.