the objectives of Sections 6(b)(5) and 6(b)(6), in particular, in that it is consistent with the Exchange's regulatory responsibilities and will promote just and equitable principles of trade and protect investors and the public interest.

(B) Self-Regulatory Organization's Statement on Burden on Competition

The Amex does not believe that the proposed rule change will impose any burden on competition.

(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants or Others

No written comments were solicited or received with respect to the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 35 days after the publication of this notice in the Federal Register or within such longer period: (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reason for so finding; or (ii) as to which the self-regulatory organization consents, the Commission will:

(a) By order provide such proposed rule change, or

(b) Institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying at the Commission's Public Reference Section, 450 Fifth Street, N.W., Washington, D.C. Copies of such filing will also be available for inspection and copying at the principal office of the above-mentioned self-regulatory organization. All submissions should refer to file number SR–Amex–96–34 and should be submitted by November 26, 1996.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[8]

Margaret H. McFarland,

Deputy Secretary.

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[8] 17 CFR 200.30–3(a) (12) (1995).

[Release No. 34–37890; File Nos. SR–Amex–96–37, SR–NYSE–96–30, and SR–Phlx–96–43]

Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change by the American Stock Exchange, Inc., New York Exchange, Inc., and Philadelphia Stock Exchange, Inc., Relating to an Extension of Certain Market-Wide Circuit Breaker Provisions

October 29, 1996.

Pursuant to Section 19(b) (1) of the Securities Exchange Act of 1934 (''Act''),[1] and Rule 19b–4 thereunder, [2] notice is hereby given that on October 3, 1996, the American Stock Exchange, Inc. (''Amex''); on October 15, 1996, the New York Stock Exchange, Inc. (''NYSE''); and on October 22, 1996, the Philadelphia Stock Exchange, Inc. (''Phlx'') respectively (each individually referred to herein as an ''Exchange'' and to two or more collectively referred to as ''Exchanges'', filed with the Securities and Exchange Commission (''Commission'' or ''SEC'') the proposed rule changes relating to the extension of certain market-wide circuit breaker provisions as described in Items I, II, and III below, which Items have been prepared by the Exchanges. The Phlx submitted to the Commission Amendment No. 1 to its proposal on October 28, 1996. [3] The Commission is publishing this notice to solicit comments on the proposed rule changes from interested persons. As discussed below, the Commission is also granting accelerated approval of these proposed rule changes.

[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b–4.

[3] In Amendment No. 1, the Phlx requested an extension of its pilot program for a six month period ending on April 30, 1997, rather than the one year period originally requested. See Letter from Murray L. Ross, Secretary, Phlx, to Alton Harvey, Office Chief, Office of Market Watch (''OMW''), Division of Market Regulation (''Market Regulation''), Commission, dated October 28, 1996.

I. Self-Regulatory Organizations' Statement of the Terms of Substance of the Proposed Rule Changes

The Exchanges propose to extend for six month (*i.e.*, until April 30, 1997) their existing circuit breaker pilot programs which expire on October 31, 1996.

II. Self-Regulatory Organizations' Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Changes

In their filing with the Commission, the Exchanges included statements concerning the purpose of and basis for the proposed rule changes. The text of these statements may be examined at the places specified in Item V below. The self-regulatory organizations have prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organizations' Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Changes

1. Purpose

In 1988, the Commission approved circuit breaker rule proposals by the Exchanges;[4] and in July, 1996, the Commission approved the first major set of changes to the circuit breaker rules.[5] To summarize, the original circuit breaker rules provided that trading would halt for one hour if the Dow Jones Industrial Average (''DJIA'') [6] was to decline 250 points from its previous day's closing level and, thereafter, trading would halt for an additional two hours if the DJIA declined 400 points from its previous day's close. Further, the original rules also provided for the Exchanges to conduct an abbreviated reopening session if the circuit breaker trigger levels were reached during the last hour, but before the last half-hour of trading, or during the last two hours, but before the last hour of trading. The original circuit breaker proposals were approved on a pilot basis, and have

[4] See Securities Exchange Act Release Nos. 26198 (October 19, 1988), 53 FR 41637 (Amex, Chicago Board Options Exchange, Incorporated (''CBOE''), National Association of Securities Dealers (''NASD'') and NYSE); 26218 (October 26, 1988), 53 FR 44137 (Chicago Stock Exchange (''CHX'')); 26357 (December 14, 1988), 53 FR 51182 (Boston Stock Exchange (''BSE'')); 26368 (December 16, 1988), 53 FR 51942 Pacific Stock Exchange (''PSE'')); 26386 (December 22, 1988), 53 FR 52904 (Phlx); and 26440 (January 17, 1989), (Cincinnati Stock Exchange (''CSE'')).

[5] See Securities Exchange Act Release Nos. 37457 (July 19, 1996) 61 FR 39176 (NYSE); 37458 (July 19, 1996), 61 FR 39167 (Amex); and 37459 (July 19, 1996), 61 FR 39172 (BSE, CBOE, CHX, and Phlx).

[6] ''Dow Jones Industrial Average'' is a service mark of Dow Jones & Company, Inc.

been extended annually on that basis since.[7]

In July of 1996, the Commission approved proposals by the Exchanges to amend their circuit breaker rules to modify the time periods for halting trading on the Exchanges when the DJIA has declined by 250 or 400 points.[8] Now, if the DJIA declines by 250 points, trading will halt for one-half hour, and if the DJIA declines further by 400 points, trading will halt for one hour. Also, the Commission approved the Exchanges eliminating references in their rules to using abbreviated reopening procedures either to permit trading to reopen before the scheduled closing, or to establish new last sales prices if trigger values are reached during the last hour, but before the last half-hour of trading, or during the last two hours, but before the last hour of trading.[9]

The Exchanges believe that it is appropriate to extend their respective circuit breaker pilot programs for at least another six months. Although the Exchanges have not had to implement the circuit breaker provisions subsequent to the revisions approved in July, 1996, the Exchanges continue to believe that these revised time periods will be sufficient to provide a meaningful ''time out'' for participants to evaluate changing market conditions, without unduly constraining trading activity. Accordingly, the Exchanges propose that an initial extension of at least six months be granted to provide them with additional time to continue appraising the effectiveness of the reduced time periods for halting trading.

The Exchanges also represent that they will use the six-month extension to review the adequacy of the current circuit breaker trigger levels, which have remained the same 250/400 point level ever since the pilot programs were first adopted in 1988.[10] The Commission believes that increases in the circuit breaker trigger levels to reflect current market levels should be developed by the Exchanges as soon as possible.

2. Statutory Basis

The basis under the Act for this proposed rule change is the requirement under Section 6(b)(5) that an exchange have rules that are designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to protect and perfect the mechanism of a free and open market and a national market system, and in general, to protect investors and the public interest.

The proposed rule changes are consistent with Section 6(b)(5) of the Act in that they are designed to promote just and equitable principles of trade. The Exchanges believe that extending their circuit breaker rules is consistent with these objectives in that the additional time will provide market participants with a reasonable opportunity to continue assessing the viability of the reduced time periods in the event of a circuit breaker trading halt, and also, to address the adequacy of the current circuit breaker trigger levels.

B. Self-Regulatory Organizations' Statement on Burden on Competition

The Exchanges do not believe that any burden will be placed on competition as a result of the proposed rule change.

C. Self-Regulatory Organizations' Statement on Comments on the Proposed Rule Change Received From Members, Participants or Others

Comments were neither solicited nor received with respect to the proposed rule changes.

III. Date of Effectiveness of the Proposed Rule Changes and Timing for Commission Action

The Exchanges request that the Commission finds good cause pursuant to Section 19(b)(2) of the Act for approving these extensions to circuit breaker rules prior to the 30th day after publication of the proposed rule change in the Federal Register.

IV. Commission's Findings and Order Granting Accelerated Approval of Proposed Rule Change

After careful review of the Exchanges' proposed amendments to their circuit breaker rules and for the reasons discussed below, the Commission believes that the proposed rule changes are consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b).[11] Specifically, the Commission believes the proposals are consistent with the Section 6(b)(5) requirements that the rules of an exchange be designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, to prevent fraudulent and manipulative acts, and, in general, to protect investors and the public interest.

In 1988, the Commission approved circuit breaker proposals by the SROs as a coordinated mechanism to deal with potential strains that may develop during periods of extreme market volatility.[12] These market-wide circuit breakers were intended to provide market participants with an opportunity to reestablish an equilibrium between buying and selling interest by providing a reasonable opportunity to become aware of and respond to a sudden, potentially destabilizing market decline. In approving these proposals, the Commission also noted that an Interim Report of the Working Group on Financial Markets (''Working Group'') [13] had recommended that in periods of rapid market decline that threaten to create panic conditions, trading halts and reopening procedures should be coordinated within the financial market place.[14] Specifically, the Working Group recommended that all U.S. markets for equity and equity-related products—stocks, individual stock options, stock index options, and stock index futures—halt trading during such periods of market volatility.[15] These recommendations, in part, were in response to the events of October 19, 1987, when the DJIA declined over 22.6%. The futures exchanges also adopted analogous trading halts to providecoordinated means to address potentially destabilizing market volatility.[16]

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[7] See *supra* note 4. The most recent extensions expire on October 31, 1996 for the Amex, NYSE and Phlx, and on October 31, 1997 for the BSE and CHX. See Securities Exchange Act Release No. 36414 (Oct. 25, 1995) 60 FR 55630. The National Association of Securities Dealers' (''NASD'') policy statement expires on December 31, 1997. See Securities Exchange Act Release No. 36563 (December 7, 1995), 60 FR 64084. The Commission approved on a permanent basis the proposals by the CBOE, CSE, and PSE). See Securities Exchange Act Release Nos. 26198 (October 19, 1988), 53 FR 41637 (CBOE); 26440 (January 10, 1989) 54 FR 1830 (CSE); and 26368 (December 16, 1988), 53 FR 51942 (PSE).

[8] See *supra* note 5.

[9] *Id.*

[10] See *supra* note 4.

[11] 15 U.S.C. 78f(b).

[12] See *supra* note 4.

[13] The Working Group on Financial Markets was established by the President in March 1988 in response to the 1987 market break. It consisted of the Under Secretary for Finance of the Department of the Treasury and the Chairmen of the Commission, the Commodity Futures Trading Commission, and the Board of Governors of the Federal Reserve System. Its mandate was to determine the extent to which coordinated regulatory action was necessary to strengthen the nation's financial markets.

[14] *Id.*

[15] *Id.*

[16] See Letter from Todd E. Petzel, Vice President, Financial Research, Chicago Mercantile Exchange

The Commission continues to believe that the market-wide trading halt proposals are consistent with Section 6 of the Act[17] in that they are designed to remove impediments to, and perfect the mechanism of, a free and open market, and to protect investors and the public interest. In particular, the Commission believes that the circuit breaker rules reflect an appropriate coordinated effort by the equities and futures markets to halt trading for a brief period in all stocks, stock options, stock index options, stock index futures, and options on stock index futures when the equity market experiences a potentially destabilizing intra-day decline. The Commission also believes that the proposed extension of the circuit breaker rules by the Exchanges will serve to maintain the coordinated approach that now exists for trading halts that are applicable during large, rapid market declines.

While the Commission is approving the NYSE, Amex, and Phlx's proposals today in order to maintain coordinated trading halt procedures across all equity markets, the Commission continues to have significant concerns that the levels for triggering the trading halts need to be increased to reflect the market rise since the breakers' inception. As the Commission noted when the rule changes shortening the circuit breaker halts were adopted in July 1996,[18] the 154% increase in market levels since 1988 necessitates increases in the circuit breaker trigger levels so as to prevent unnecessary application of the breakers. The continued rise in the DJIA since July further reinforces the Commission's concerns in this area. Specifically, when the circuit breaker rules were adopted in 1988, the 250-point and 400-point triggers represented one-day declines of 12% and 19%, respectively, in the DJIA. At current market levels, these triggers represent declines of only 4.1% and 6.6%, respectively.[19] Thus, the maintenance of the trigger levels at 250 and 400 points for eight years while the market has risen substantially has acted to effectuate a significant *de facto* diminution of the price movement that would cause a market-wide trading halt.

The Commission has serious doubts whether a 4.1% decline warrants a market-wide halt. In this regard, the Commission notes that the 1988 threshold of a 12% decline in the DJIA for the first trading halt has been reached only once since 1945, during the 508-point (22.63%) decline on October 19, 1987; whereas the current 4.1% threshold for the first trading halt has been reached on 13 separate occasions since 1945.

The original intent of circuit breakers was to provide a brief ''timeout'' only during an extraordinary market decline. The Working Group envisioned that the circuit breaker levels would be reevaluated periodically and adjusted to reflect market levels.[20] The Commission strongly urges the markets to reach a consensus as soon as possible on the size of increases in the current trigger levels required to ensure that cross-market trading halts are imposed only during market declines of historic proportions. Accordingly, the Commission is approving the extensions of circuit breakers for only a six-month period, rather than for a year as in the past. During the next six months, the Commission expects that the markets will promptly reevaluate and adjust circuit breaker trigger levels in order to prevent imposing cross-market trading halts that are not justified by the overall magnitude of a market decline. Moreover, the Commission expects the markets to provide the Commission with their proposals for new trigger levels by February 3, 1997.

Nevertheless, in order to maintain the coordination of circuit breaker procedures across the nation's stock, options, and futures exchanges, the Commission has determined that it is appropriate to approve the Exchanges' proposals to extend their current circuit breaker rules for an additional six months. The Commission believes that this extension will provide more than sufficient time for the Exchanges to agree on the proper trigger levels and procedures under prevailing market levels, as well as to submit proposals to the Commission and for the Commission to act on the markets' proposals. Accordingly, the Commission finds good cause for approving the Exchanges' proposed rule changes prior to the thirtieth day after the date of publication of notice of filing thereof in the Federal Register because there are no changes being made to the current provisions which were approved in July, 1996. Accelerated approval will enable the circuit breaker pilots to continue on an uninterrupted basis, and ensure continued coordination among the Exchanges. Due to the importance of these circuit breakers for market confidence, soundness, and integrity, it is necessary and appropriate that these procedures continue uninterrupted. Therefore, the Commission believes that granting accelerated approval of the proposed rule changes is appropriate and consistent with Sections 6 and 19(b)(2) of the Act.

V. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying at the Commission's Public Reference Section, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such filing will also be available for inspection and copying at the principal office of the Exchange. All submissions should refer to File Nos. SR–Amex–96–37, SR–NYSE–96–30, and SR–Phlx–96–43 and should be submitted by November 26, 1996.

VI. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,[21] that the proposed rule changes (SR–Amex–96–37, SR–NYSE–96–30, and SR–Phlx–96–43) are hereby approved until April 30, 1997.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[22]

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(''CME''), to Jean A. Webb, Secretary, Commodity Futures Trading Commission (''CFTC''), dated September 1, 1988. See also letters to Jean A. Webb, Secretary, CFTC, from Paul J. Draths, Vice President and Secretary, Chicago Board of Trade (''CBT''), dated July 29, 1988; Michael Braude, President, Kansas City Board of Trade (''KCBT''), dated August 10, 1988; and Milton M. Stein, Vice President, Regulation and Surveillance, New York Futures Exchange (''NYFE''), dated September 2, 1988.

[17] 15 U.S.C. 78f(b).

[18] See *supra* note 5.

[19] These figures are based on the DJIA close of 6094.23 on October 18, 1996.

[20] See *supra* note 13.

[21] 15 U.S.C. 78s(b)(2).

[22] 17 CFR 200.30–3(a)(12).