

# NYSE Outlines Priorities for Enhancing Market Structure

January 28, 2016, 09:45:00 AM EDT By Dow Jones Business News



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The New York Stock Exchange on Thursday proposed a series of rule changes designed to avoid another repeat of the market mayhem that struck in August

Many of the proposals are widely agreed upon among exchanges and market participants, but they don't include changes to some of the more contentious issues such as NYSE's Rule 48.

The rarely used rule, which allows market-makers to open trading of stocks later on volatile days, was criticized for contributing to problems on Aug. 24.

On Aug. 24, NYSE also invoked the rule to allow market-makers to forgo disseminating information about how potentially volatile stocks might trade. The rule was designed to make it easier to open the markets faster, but many stocks ended up opening late.

NYSE's proposals, created with the help of consultancy McKinsey & Co., focus on adjusting how circuit breakers are triggered, making trading halts last longer and getting all the exchanges to agree on the same rules to avoid conflicts during periods of market instability.

"We view it as our obligation to turn the good suggestions into action that actually improves the markets," said NYSE President Thomas Farley in an interview.

The exchange operator, part of Atlanta-based Intercontinental Exchange Inc., also called for a rule that would require any restarting of trading after a halt to begin with a return to the exchange where the shares are listed.

That would help avoid any conflicts where stocks reopen at separate exchanges, Mr. Farley said.

The discussion around changes is important because market observers have forecast 2016 could be rocked by more periods of volatility as the global economy adjusts to rapid changes in the price of oil and fears that China's economy is slowing down.

Trading on Aug. 24 highlighted the cost of structural breakdowns in the way exchanges match buyers and sellers.

Decisions by traders on the floor of NYSE that day contributed to extraordinary swings of some stock prices. Shares of KKR & Co. declined more than 50%, while those of J.P. Morgan Chase & Co. and General Electric Co. dropped more than 20% before all three recovered most of the day's losses.

Robert Greifeld, CEO of Nasdaq Inc., said the most important change would be for NYSE to start opening the market "on time at 9:30 a.m." along with other exchanges.

The comment from one of NYSE's chief rivals was referring to Rule 48 and how NYSE uses floor traders to manually open stocks. That process sometimes takes longer, especially during times of heightened volatility.

But NYSE's Mr. Farley said "our opening process on August 24th and every other day is superior to other exchanges because it results in lower volatility and better price discovery of listed companies."

One area that wasn't comprehensively addressed was the potential for marketwide circuit breakers to cause problems in the U.S. market, said James Angel, a finance professor at Georgetown University.

"The way we've designed the marketwide circuit breakers is very problematic," he said. "They just blew up in China and we need to focus more on them here."

He was referring to China's short-lived experiment with using marketwide circuit breakers to slow down trading earlier this month. Share prices in China crossed the downward limit of 7% on two days in a week, causing all trading to be halted for the day. That, in turn, increased uncertainty in other markets.

The marketwide circuit breakers require a pause of trading if the S&P 500 index drops more than 7% before 3:25 p.m. Exchanges narrowly avoided having to implement those on Aug. 24, but there is a risk they could be the origin of another market structure problem in the future, Mr. Angel said.

NYSE said in its proposal that there actually may be a need for additional marketwide circuit breakers, but the matter should be studied more to avoid unintended consequences.

Structural problems are rarely the initial cause of problems in the markets, but they can greatly exacerbate or spread problems. One exception was the 2010 flash crash when the Dow Jones Industrial Average dropped by more than 1000 points before rapidly recovering.

Studies of that event have laid the blame on high-speed traders temporarily pulling some of their bids and offers, mismatches of rules between the futures and stock markets and other problems including the alleged manipulative trading of a London trader that day.

The proposals were a good first step, but they won't help unless all the exchanges agree to make changes in sync with each other, said Bernard Donefer, a Baruch College and New York University professor who studies capital markets.

"Unless everybody is consistent, it's not going to have the benefit they expect," he said.

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01-28-160945ET

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