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Market exchanges agree to bolster circuit breakers

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By Matt Krantz, USA TODAY

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Major exchanges on Monday agreed with regulators to bolster their circuit breakers, in an effort to prevent the kind of mayhem that gripped financial markets last week.

Changes to circuit breakers, or temporary pauses in trading to allow buyers and sellers to collect themselves in fast-moving markets, are expected following the Securities and Exchange Commission's meeting with the leaders of the six main exchanges, including the New York Stock Exchange, Nasdaq, BATS, Direct Edge, International Securities Exchange and Chicago Board Options Exchange.

EFFECT: Fear rises while Dow's 1,000-point drop remains a mystery

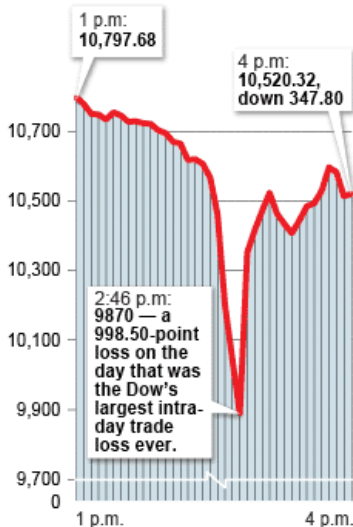
Details of the proposed curbs were not provided. However, the SEC said in its statement that the parties agreed on a "structural framework" for "strengthening" circuit breakers and handling incorrect trades. Details are to be hashed out today, the SEC said.

The NYSE declined to comment. The Nasdaq, in an e-mail, said it had a productive meeting with the SEC. Having the exchanges agree upon and use the same standards of when to slow down trading could help prevent the market turbulence that caused stocks to go into an unusual free fall last Thursday, market observers say. The Dow Jones industrial average plunged 999 points in 30 minutes only to largely bounce back.

The fact the NYSE was slowing down trades in some stocks, while other all-electronic exchanges were still conducting high-speed computerized trades in those same stocks, caused some orders to be routed to exchanges with fewer orders. That resulted in erratic prices. "There has to be harmony between exchanges," says Edward Webbush, CEO of investment firm Webbush Securities.

DOW PLUNGES

The Dow fell 999 points in the 30 minutes between 2:30 p.m. and 3 p.m., making it among the most volatile periods in Wall Street history. In that time, the U.S. stock market lost \$800 billion in value, based on the Wilshire 5000 index. From 2:46 p.m. to 3 p.m. it recovered \$600 billion in value, recording a net loss of \$200 billion.



Sources: Bloomberg News, USA TODAY research By Karl Gelles, USA TODAY

While exchanges have gone electronic, which allows for rapid trading, rules to hold markets in sync haven't kept up, Webbush says.

Circuit breakers can be helpful in allowing investors to gather breaking news so they can make informed decisions, says Michelle Clayman of New Amsterdam Partners. "Circuit breakers do seem to work," she says.

Meanwhile, investors are still somewhat in the dark about exactly what happened. Some details are expected today, though, as Rep. Paul Kanjorski, D-Pa., is scheduled to hold a hearing on the matter.

"We still don't know" what happened, says Michael Farr of Farr Miller & Washington. "But what we have learned is that our system is vulnerable."

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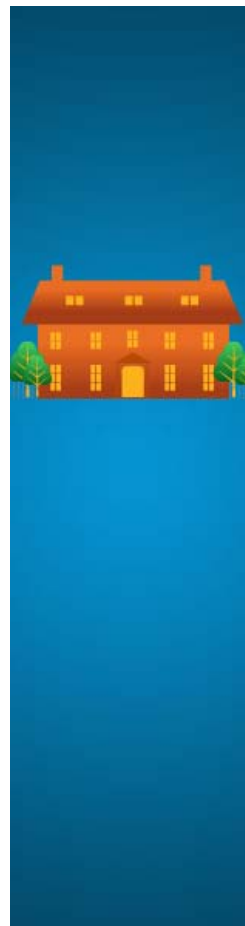


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