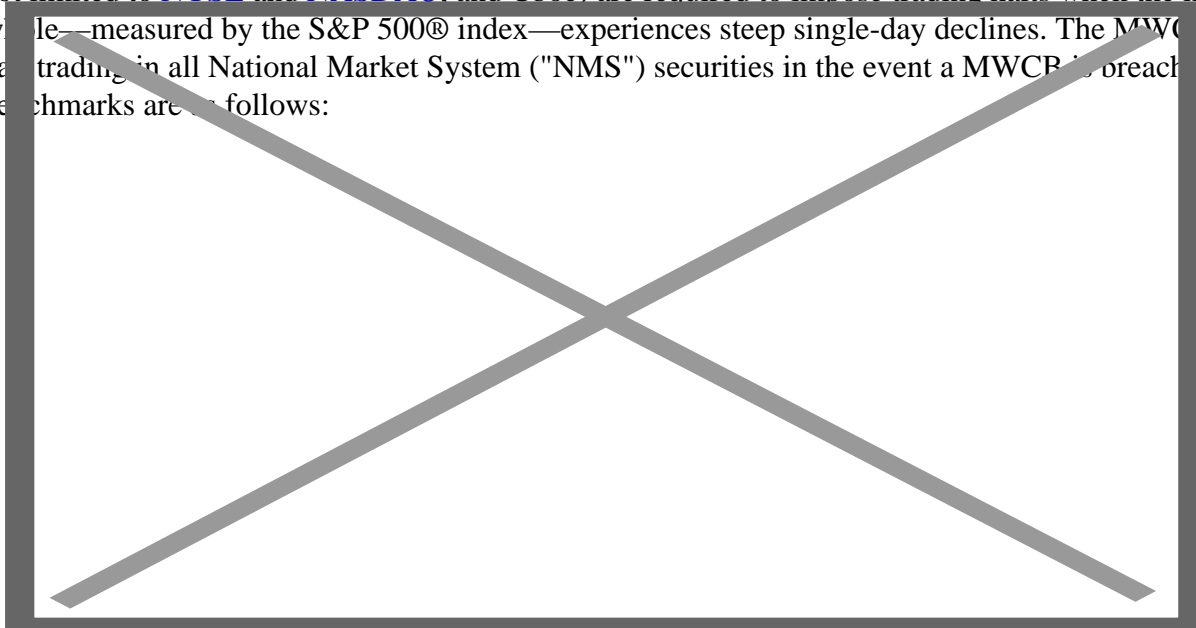


Understanding Circuit Breakers, Our New Reality, in the Time of COVID-19

In the midst of the COVID-19 pandemic, the financial markets have experienced significant volatility. During the course of this volatility, exchanges have halted trading multiple times after declines in trading triggered circuit breakers. In addition, trading floors are transitioning to electronic trading in efforts to prevent the transmission of COVID-19 on physical trading floors. With the recent turmoil, this post provides a high-level summary of the various types of circuit breakers and what can be expected.

Market-Wide Circuit Breakers ("MWCB")

Through rule changes [approved](#) by the SEC in 2012, U.S. equity, options, and future exchanges (including, but not limited to [NYSE](#) and [NASDAQ](#), and Cboe) are required to impose trading halts when the market as a whole—measured by the S&P 500® index—experiences steep single-day declines. The MWCBs temporarily halt trading in all National Market System ("NMS") securities in the event a MWCB is breached. The triggering benchmarks are as follows:



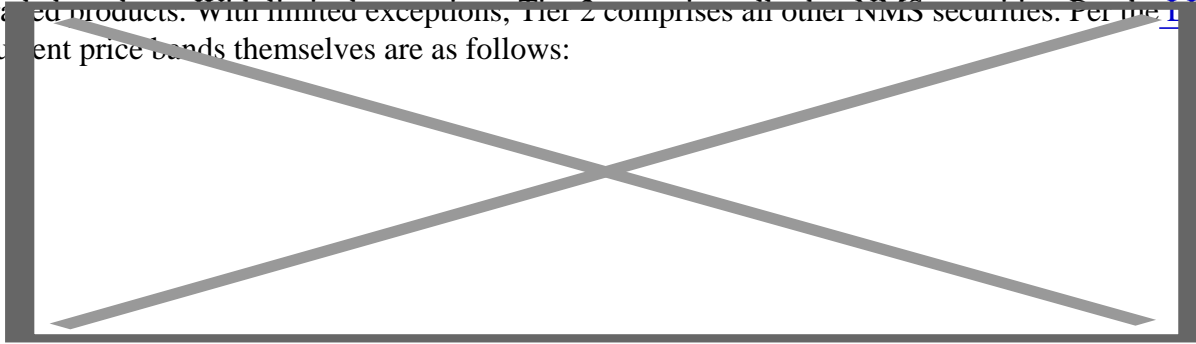
Securities

Information Processors ("SIPs") declare when a MWCB halt has been triggered and publishes messages to market participants regarding the halt. Upon receipt of the message from the SIPs, the Primary Listing market is responsible for both monitoring and triggering halts in each of their listed securities. Trading halts per Level only occur once per trading day. Once a MWCB is triggered, trading on an unlisted privileges basis is halted on all markets until the Primary Listing market reopens the security.

Single-Stock Circuit Breakers

Limit Up-Limit Down Plan ("LULD") To address extraordinary market volatility, in April 2019 the SEC approved the LULD plan. LULD prevents trades in NMS securities from occurring outside of specified price

bands, which are set at a percentage level above and below the average reference price of a security over the preceding five-minute period. The price band percentage does not change intraday; the previous day's closing prices on the Primary Listing market is used to determine the reference price bands for that day exclusive of intraday price changes. The percentage levels for the price bands are dependent on a security's designation as a Tier 1 or Tier 2 security. Tier 1 comprises all securities in the S&P 500, the Russell 1000 and select exchange traded products. With limited exceptions, Tier 2 comprises all other NMS securities. Per the [FINRA website](#), the current price bands themselves are as follows:



For the circuit

breaker itself, there is a five-minute trading pause on the NMS security if trading is unable to occur within the specified price band after 15 seconds. *Reg SHO* [Reg SHO](#) under the Securities Exchange Act of 1934 also imposes a single-stock circuit breaker. Similar to the MWCB it is applicable to all NMS stocks; however, it does not halt or suspend trading, it simply places heightened restrictions on certain types of trades. Rule 201 of Reg SHO prohibits short-selling at or below the national best bid in a security that declines 10% or more from its prior day's closing price. Once triggered, the circuit breaker remains in effect for the remainder of the trading day and the following day. The circuit breaker can be retriggered on the following day. One of the primary policy goals of the Rule 201 circuit breaker is to allow long sellers a chance to sell without short sellers placing additional downward pressure on the price.

All-Electronic "Trading Floors"

NYSE On March 23, 2020, NYSE temporarily [moved](#) to all-electronic trading after invoking its business continuity plan because of the COVID-19 pandemic. The specific closures are the NYSE equities trading floor in New York, NYSE American Options trading floor in New York, and NYSE Arca Options trading floor in San Francisco. While trading is generally continuing per usual, according to the NYSE, there are several differences as a result of all electronic trading:

- On the NYSE's equities market, the Designated Market Makers digitally provide liquidity in their stocks; however, floor broker order types are unavailable.
- On the NYSE's options markets, electronic trading continues normally but open-outcry trading is suspended.

Cboe Exchange and Chicago Mercantile Exchange ("CME") The Cboe Options Exchange [transitioned](#) to all-electronic trading on March 16, 2020 in response to the COVID-19 pandemic. Per Cboe, in its electronic-only trading mode for the Cboe Options Exchange, "the trading floor and all routing to the trading floor is disabled and unavailable. Input of orders are only available electronically . . . similar to all other Cboe options trading platforms." CME also closed its physical trading floor effecting March 16, 2020 as a result of the COVID-19 pandemic.

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