



EXHIBITS

JOINT HEARING

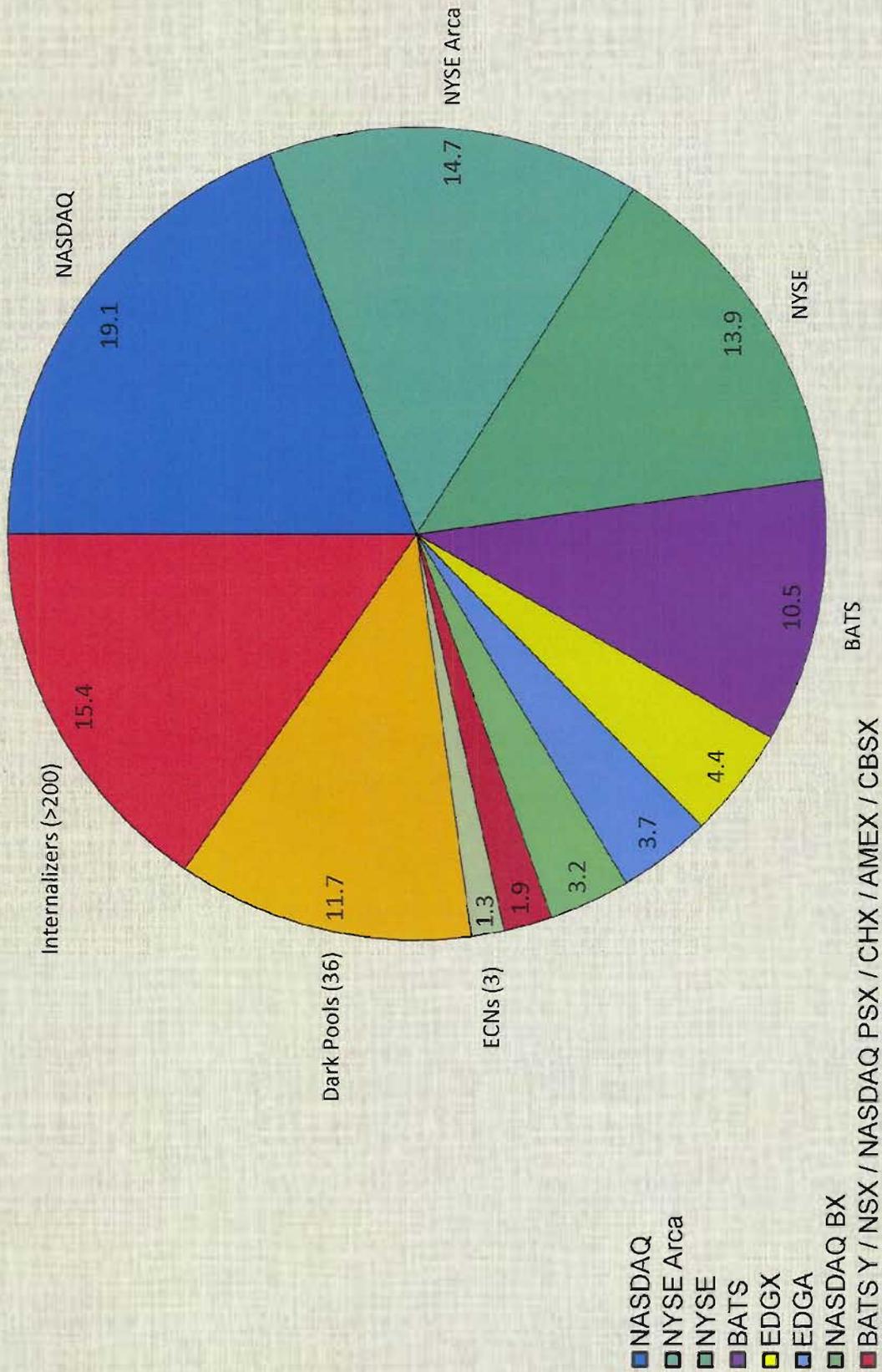
SUBCOMMITTEE ON SECURITIES, INSURANCE, AND INVESTMENT
Committee on Banking, Housing, and Urban Affairs
and
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
Committee on Homeland Security and Governmental Affairs

*EXAMINING THE EFFICIENCY,
STABILITY, AND INTEGRITY OF THE
U.S. CAPITAL MARKETS*

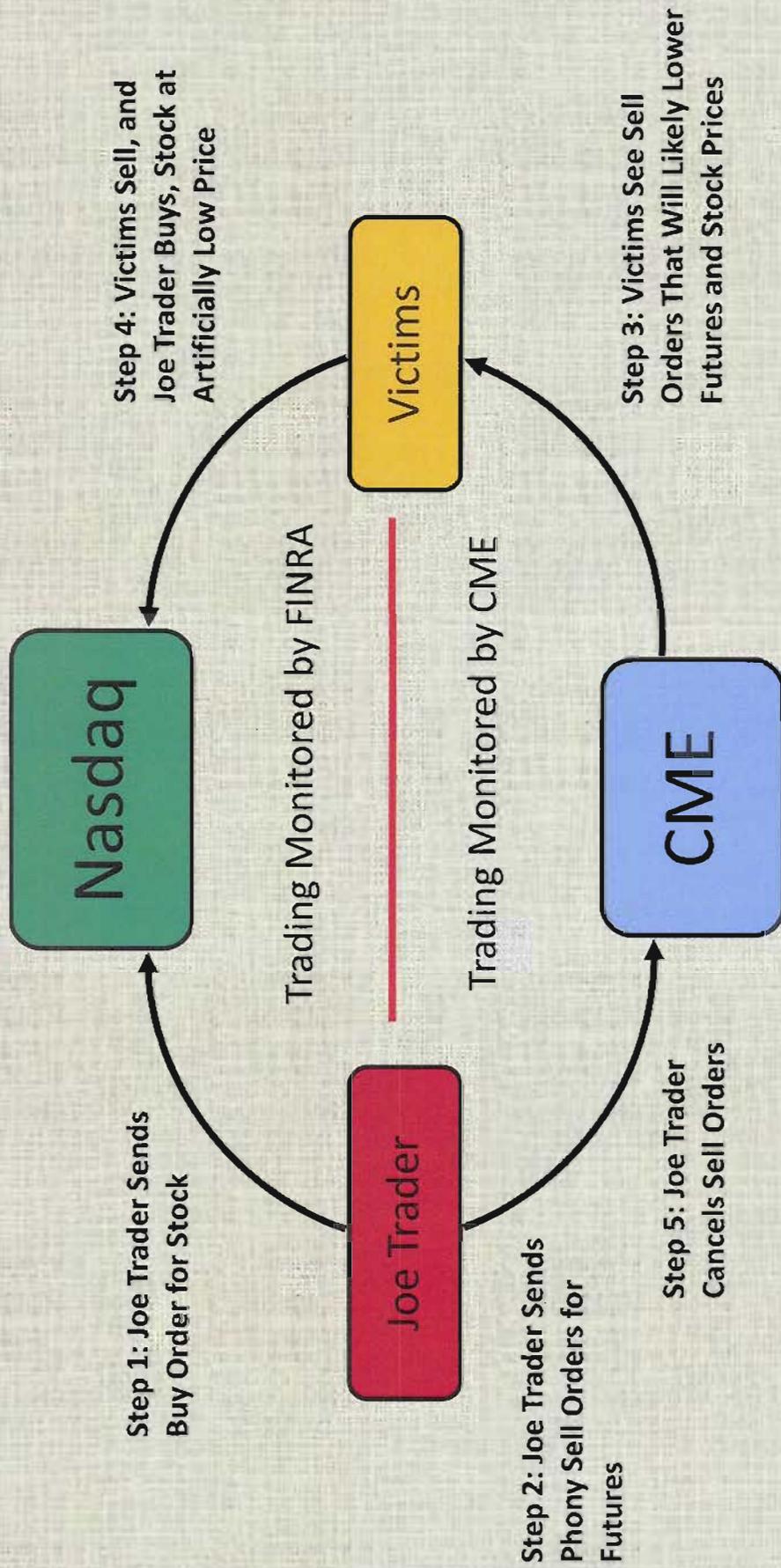


Wednesday, December 8, 2010
538 Dirksen Senate Office Building

The Divided U.S. Stock Market: Exchange and Off-Exchange Trading Today



Cross Product Manipulation: A Hypothetical





FIXED INCOME, CURRENCY AND COMMODITIES INDIVIDUAL REVIEW BOOK

Reviewee : Salem, Deeb A

Title : VP

Review Criteria : FICC-Vice President

Business Unit : Mortgages

Department : SPG Trading

Region : Americas

Date of Hire : 16-JUL-01

Primary Manager : Swenson, Michael J

Co - Manager 1 : Lehman, David A

Co - Manager 2 : Birnbaum, Josh S

Co - Manager 3 :

Co - Manager 4 :

Mentor :

THE PURPOSE OF THIS REVIEW MATERIAL IS FOR PERSONAL DEVELOPMENT. IT IS NOT INTENDED FOR DISCLOSURE OUTSIDE THE FIRM.

Title Description: VP=Vice President/Executive Director; AS=Associate; AN=Analyst; EX=Exempt; NX=Non-Exempt

As you review feedback information, you should be alert to instances in which an individual has received an unusually negative comment or low score on the "Compliance" or "Diversity and Equitable Treatment" questions. Please consider whether the response requires follow-up, including consultation with a more senior manager, a Compliance professional, Employee Relations representative or other individuals.

Permanent Subcommittee on Investigations
EXHIBIT #3a

Redacted by the
Permanent Subcommittee on Investigations

VI. Self Evaluation (Continued)

<p>Self Evaluation</p> <p>Overall Performance</p>	<p>1. General Trading Account</p> <p>Redacted by the Permanent Subcommittee on Investigations</p> <p>we were remained as negative as ever on the fundamentals in sub-prime, the market was trading VERY SHORT, and was susceptible to a squeeze. We began to encourage this squeeze, with plans of getting very short again, after the short squeezed caused capitulation of these shorts. The strategy seemed do-able and brilliant, but once the negative fundamental news kept coming in at a tremendous rate, we stopped waiting for the shorts to capitulate, and instead just initiated shorts ourselves immediately. I also respect liquidity tremendously. When the desk needs to add or reduce a position, I focus more on optimizing the likelihood of getting dashed size of the trade and less on optimizing the price of each individual trade.</p> <p>in May, while</p>
	<p>2. My attitude:</p> <p>Redacted by the Permanent Subcommittee on Investigations</p>
	<p>3. Obviously the most important aspect of my 2007 and my contribution to the firm has been the debts P&L.</p> <p>Redacted by the Permanent Subcommittee on Investigations</p>

From: Swenson, Michael
Sent: Friday, May 25, 2007 12:08 PM
To: Chin, Edwin; Salem, Deeb
Subject: Re:

We should be offering sn protection down on the offer side to the street on tier one stuff to cause maximum pain

----- Original Message -----

From: Chin, Edwin
To: Bhavsar, Avanish R
Cc: Swenson, Michael; Salem, Deeb
Sent: Fri May 25 11:41:59 2007
Subject: RE:

We can offer protection on the following mezz CDO names @ 795 as a package. Levels good up to 10MM each.

Deal Name	Tranche	Rating	Issuer	Ref Ob	Px Date
BFCGE 2006-1A	A3L	A	BFC Genesee CDO Ltd	BFCGE 2006-1A A3L	Feb-06
BWIC 2006-1A	C	A	Broadwick Funding Ltd	BWIC 2006-1A C	Apr-06
CAMBR 6A	D	A	Camber	CAMBR 6A D	May-06
CRNMZ 2006-1A	5	A	Cairn CRNMZ 2006-1A 5		Aug-06
CRNMZ 2006-2A	C	A	Cairn CRNMZ 2006-2A C		Oct-06
DUKEF 2006-10A	A3	A	Duke Funding Ltd	DUKEF 2006-10A A3	Apr-06
ETRD 2006-5A	A3	A	E*Trade CDO I	ETRD 2006-5A A3	Aug-06
GLCR 2006-4A	C	A	Glacier Funding CDO Ltd	GLCR 2006-4A C	Mar-06
HGCDO 2006-1A	C	A	Hamilton Gardens CDO Ltd	HGCDO 2006-1A C	Sep-06
HLCDO 2006-1A	C	A	Halcyon	HLCDO 2006-1A C	Sep-06
IXCBO 2006-2A	C	A	IXIS ABS CDO 1 Ltd	IXCBO 2006-2A C	May-06
LRDG 2006-1A	C	A	Longridge ABS CDO Ltd	LRDG 2006-1A C	Sep-06
PINEM 2006-AA	C	A	Pine Mountain	PINEM 2006-AA C	Oct-06
TOPG 2006-2A	B	A	Topanga CDO Ltd	TOPG 2006-2A B	Nov-06
TOURM 2006-2A	D	A	Tourmaline CDO	TOURM 2006-2A D	Mar-06

-----Original Message-----

From: Bhavsar, Avanish R
Sent: Friday, May 25, 2007 11:19 AM
To: Chin, Edwin
Subject: RE:

whats eta?

-----Original Message-----

From: Chin, Edwin
Sent: Friday, May 25, 2007 10:38 AM
To: Bhavsar, Avanish R; Salem, Deeb
Cc: Swenson, Michael
Subject: RE:

Let's start with these RMBS offers. 10MM each.

ABFC 2006-OPT2 M8	355
CWL 2006-15 M9	315
FHLT 2006-E M8	345
FMIC 2006-3 M8	415
GSAMP 2006-FM2 M8	465
GSAMP 2006-HE8 M8	375

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Permanent Subcommittee on Investigations

EXHIBIT #3b

Confidential Treatment Requested by Goldr

GS MBS-E-012443115

JPMAC 2006-FRE2 M8 525
JPMAC 2006-NC2 M8 295
SAST 2006-3 B3 450
SVHE 2006-EQ2 M8 375

From: Bhavsar, Avanish R
Sent: Friday, May 25, 2007 9:36 AM
To: Salem, Deeb; Chin, Edwin
Cc: Swenson, Michael
Subject:

We have a new equity acct [REDACTED] they are interested in seeing offerings on the following

- 1) CDS on CDOs late 06, early 07 mezz deals, BBB thru AA
- 2) Single names RMBS 2nd half '06, BBB- or BBB

They are axed to buy protection.

Avanish R. Bhavsar
Managing Director
Capital Structure Sales
Securities Divison

Goldman, Sachs & Co.
1 New York Plaza 50th Floor | New York, NY 10004
Tel: 212 [REDACTED] Cell: 917 [REDACTED]
e-mail: avanish.bhavsar@gs.com

[REDACTED] - Redacted by the Permanent
Subcommittee on Investigations

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From: Swenson, Michael
Sent: Tuesday, May 29, 2007 11:06 AM
To: Salem, Deeb
Subject: Re: they want to think about doing this again...

We should start killing the sn shorts in the street - let's pick some high quality stuff that guys are hoping is wider today and offer protection tight - this will have people totally demoralized

----- Original Message -----

From: Salem, Deeb
To: Swenson, Michael
Sent: Tue May 29 10:41:55 2007
Subject: RE: they want to think about doing this again...

the index wont close where it is this morning in my opinion...

-----Original Message-----

From: Swenson, Michael
Sent: Tuesday, May 29, 2007 10:21 AM
To: Salem, Deeb
Subject: Re: they want to think about doing this again...

Then you need to be prepared to widen their marks we also need credit approval

----- Original Message -----

From: Salem, Deeb
To: Bhavsar, Avanish R; Swenson, Michael
Cc: Chin, Edwin; Birnbaum, Josh
Sent: Tue May 29 10:05:52 2007
Subject: RE: they want to think about doing this again...

indices -125bps wider since trades 1 week ago

Ref Ob	CUSIP	Offer
ACE 2006-CW1 M9	00441QAP4	500
BSABS 2006-HE3 M8	07387UH27	650
CARR 2006-NC2 M9	14453FAN9	650
GSAMP 2006-NC2 M8	362463AH1	715
IXIS 2006-HE3 B2	46602UAM0	725
JPMAC 2006-ACCI M9	46628RAP0	625
JPMAC 2006-FRE1 M8	46626LFV7	595
JPMAC 2006-NC2 M9	46629FAN0	525
LBMLT 2006-8 M8	54251UAN6	875
LBMLT 2006-WL1 M9	542514RE6	595
MSAC 2005-HE5 B3	61744CVA1	600
RAMP 2006-NC3 M9	76112B4X5	700
SVHE 2006-OPT3 M8	83611MPS1	575
WMABS 2006-HE2 M9	93934JAN4	650

-----Original Message-----

From: Bhavsar, Avanish R
Sent: Tuesday, May 29, 2007 9:20 AM
To: Salem, Deeb; Swenson, Michael
Cc: Chin, Edwin
Subject: they want to think about doing this again...

last trade with [REDACTED]...

Protection Buyer: [REDACTED]

----- = Redacted by the Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations
EXHIBIT #3c

Protection Seller: Goldman Sachs
Size: \$105mm total (\$7.5mm x 14 reference obs)

ACE 2006-CW1 M9	00441QAP4	415bps
BSABS 2006-HE3 M8	07387UH27	575bps
CARR 2006-NC2 M9	14453FAN9	490bps
GSAMP 2006-NC2 M8	362463AN1	625bps
IXIS 2006-HE3 B2	46602UAM0	550bps
JPMAC 2006-ACC1 M9	46628RAP0	515bps
JPMAC 2006-FRE1 M8	46626LFV7	500bps
JPMAC 2006-NC2 M9	46629FAN0	415bps
LBMLT 2006-8 M8	54251UAN6	800bps
LBMLT 2006-WL1 M9	542514RE6	465bps
MSAC 2005-HE5 B3	61744CVA1	490bps
RAMP 2006-NC3 M9	76112B4X5	590bps
SVHE 2006-OPT3 M8	83611MPS1	490bps
WNABS 2006-HE2 M9	93934JAN4	540bps



December 8, 2010

The Honorable Carl Levin
Chairman
Senate Permanent Subcommittee on Investigations
340 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Levin:

As you requested, in connection with your joint hearing today on "Examining the Efficiency, Stability, and Integrity of the U.S. Capital Markets," we are pleased to provide our July 30, 2010 comment letter that we submitted to the SEC and Joint SEC-CFTC Advisory Committee on Emerging Regulatory Issues (attached) relating to the SEC's single stock circuit breaker pilot program, which they recently extended.

Since the events of May 6, 2010, CME Group has had the opportunity to review the current market-wide circuit breaker regime and the related market microstructure mechanisms that were in place at the time, as well as the recent single-stock circuit breaker pilot program instituted by the SEC. As noted in detail in our attached comment letter, CME Group believes that it is essential that these circuit breaker and related market microstructure rules address critical inter-market linkages or they will have the potential to result in significant disruptions to trading across related markets.

As you conduct your examination of the U.S. Capital Markets, CME Group encourages you to consider our recommendations as set forth in the attached comment letter, and we look forward to working with you on these issues.

Sincerely,

Terrence A. Duffy
Executive Chairman, CME Group

Craig Donohue
Chief Executive Officer, CME Group

Cc: The Honorable Jack Reed
Chairman, Senate Subcommittee on Securities, Insurance, and Investment

July 30, 2010

Via Electronic Mail: rule-comments@sec.gov

Ms. Elizabeth M. Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Re: Comments Regarding SR-NYSEArca-2010-61, SR-NYSE-2010-49, SR-NASDAQ-2010-079, SR-CBOE-2010-065, SR-BATS-2010-18, SR-CHX-2010-14, SR-EDGA-2010-05, SR-EDGX-2010-05, SR-ISE-2010-66, SR-BX-2010-044, SR-NSX-2010-08, also File No. 265-26, Joint CFTC-SEC Advisory Committee on Emerging Regulatory Issues

Dear Ms. Murphy:

CME Group Inc. ("CME Group") appreciates the opportunity to comment on the above-captioned stock exchange rule filings (the "Rule Filings"), as well as the opportunity to submit comments to the Joint Commodity Futures Trading Commission ("CFTC")-Securities and Exchange Commission ("SEC") Advisory Committee on Emerging Regulatory Issues ("Committee"), which will be making recommendations to the SEC relating to proposals to address the events of May 6. The Rule Filings relate to a proposed industry-wide expansion of the recently adopted single stock circuit breaker pilot program ("Pilot Program").

Since the market events of May 6, 2010, CME Group has had the opportunity to review the current market-wide circuit breaker regime, as well as the related market microstructure mechanisms that were in place at the stock exchanges and at CME Group. We have also had the opportunity to review recent efforts of the SEC, the stock exchanges and the Financial Industry Regulatory Authority, Inc. ("FINRA") to be responsive to the events of May 6, including the June 10, 2010 single stock circuit breaker pilot program applicable to stocks in the S&P 500 Index and the above-referenced Rule Filings, as well as the proposed implementation of new rules clarifying the circumstances under which erroneous trades will be cancelled. While we commend these efforts, we believe that certain of these actions may result in unintended consequences. We therefore believe that prompt additional action is necessary to ensure the integrity of the equity and equity derivatives markets and promote confidence among market users.

Markets can employ various tools to address the problem of sharp, destabilizing price swings. For example, markets can employ various types of automated functionality to mitigate the likelihood of erroneous trades or momentary liquidity gaps negatively impacting the market in a particular instrument. These techniques generally allow the price discovery process to continue seamlessly without any

significant disruption. Markets can also employ price limits, which are typically applicable at a product level and which are less disruptive than circuit breakers, because the market can continue to trade within the defined limits. Finally, market-wide circuit breakers that completely halt trading across all equity and equity derivatives markets when triggered can serve as an effective, albeit last line of defense. The initial introduction of market-wide circuit breakers came out of the recommendations of the 1988 Report of the President's Working Group on Financial Markets ("PWG"). The PWG was established in response to events in the financial markets on October 19, 1987, and was charged with recommending legislative and private sector policies to bolster investor confidence and enhance the integrity, efficiency, orderliness and competitiveness of U.S. financial markets. As the PWG observed, sharp declines in prices and spikes in volume can threaten the market infrastructure and lead to uncoordinated and ad hoc market closings, which, in turn, can have the effect of further destabilizing the market. The PWG was concerned about the potential for macro-market price destabilization to overwhelm the market infrastructure of trading, clearing and credit systems. In recommending circuit breakers, the PWG intended to substitute planned and coordinated trading halts for unplanned and uncoordinated halts, reducing uncertainty without necessarily increasing the frequency of such disruptions. Importantly, it was not contemplated that circuit breakers could or should alter fundamental equity prices.

As illustrated in the diagram below, each of these mechanisms serve different purposes, but should act as an integrated and escalating approach to managing market disruptions.



Automated risk management and volatility mitigation mechanisms should form the first line of defense in maintaining orderly markets and limiting opportunities for erroneous trades or liquidity gaps. Product specific price limits constitute a second line of defense and serve as a cooling mechanism, facilitating trading activity at or above pre-established price limits for a specified period of time. Market-wide circuit breakers serve as the last line of defense and generally involve market halts for a specified period of time that give market users the opportunity to assimilate market conditions and to reassess investment and trading strategies prior to the resumption of trading.

I. Background

CME Group presently employs a range of mechanisms in its equity index futures and options markets, including a variety of automated risk and volatility mitigation mechanisms, price limit rules for specific products, and market-wide circuit breakers for domestic equity index products that are fully coordinated with the cash equity and options markets.

A. Risk and Volatility Mitigation Functionality

In order to maintain fair and orderly markets, CME Group employs a variety of automated risk and volatility mitigation mechanisms on its CME Globex system which help to prevent most error trades and mitigate the impact of momentary liquidity gaps. Among the primary tools employed are the following:

- Price Banding and Maximum Order Sizes: CME Globex subjects all orders to price verification using a process called price banding. Price banding prevents the entry of erroneous orders such as a limit order to buy at a price substantially above the market or a limit order to sell at a price substantially below the market. The platform utilizes separate mechanisms for futures price banding and options price banding. Similarly, maximum order size restrictions automatically reject orders which exceed certain pre-determined quantity thresholds. These mechanisms enhance a market's price integrity, as well as confidence in trade certainty, by substantially reducing the occurrence of error trades and the collateral damage caused by having to cancel such trades.
- Stop Logic: Stop Logic functionality helps to mitigate artificial market spikes that can occur because of the continuous triggering, election and trading of cascading orders. On CME Globex, if elected stop orders would result in execution prices that exceed pre-defined thresholds, the market automatically enters a very brief reserved state. During this period, which lasts for 5-20 seconds depending on the product and time of day, new orders are accepted but trades do not occur until the reserve state expires, thereby providing an opportunity for liquidity to be replenished and for the market to regain its equilibrium.
- Protection Points: Market and Stop Order protection points permit orders to be filled only within a pre-defined range of prices without the user having to define a limit price. Any unfilled quantity for a Market Protected or Stop Protected Order becomes a Limit Order at the limit price calculated by

the trading engine. This type of functionality precludes orders from being executed at unreasonable levels when there is a temporary absence of liquidity in the market and also mitigates the likelihood of error trades by preventing the execution of trades at prices substantially away from the market.

B. Price Limits

CME Group also employs price limits in each of its equity index products. Price limits allow trading to continue at or above the limit price (in the case of a downside limit), thereby allowing investors time to evaluate market conditions and mobilize liquidity, generally without halting the market as in the case of circuit breakers. The price limits established by CME Group for its domestic equity futures products follow the same 10%, 20% and 30% triggers of the market-wide circuit breakers, as well as their time of day applicability parameters; however, the price limits are based upon declines in the lead month of the specific futures contract rather than being tied to a decline in the DJIA. If the market remains limit offer after 10 minutes, a 2 minute trading halt is triggered, after which trading resumes with the 20% limit in effect. If the market is no longer limit offered after ten minutes, there is no halt and trading continues with a 20% limit in effect. CME Group also employs a single-threshold price limit of 5% on both the upside and downside for each domestic equity index product outside of regular trading hours.¹

C. Circuit Breakers

Presently, CME Group trading halts are coordinated with trading halt policies in the primary securities markets. NYSE Rule 80B provides for trading halts based upon 10%, 20% and 30% declines in the Dow Jones Industrial Average (DJIA) relative to the prior day's settlement. NYSE Rule 80B operates as follows:

- If the DJIA declines by 10% prior to 2:00 p.m. Eastern Time (ET), a one-hour trading halt ensues.
- If the DJIA declines by 10% at or after 2:00 p.m. but before 2:30 p.m. (ET), a half-hour trading halt ensues. The 10% circuit breaker becomes inapplicable at or after 2:30 ET.
- If the DJIA declines by 20% before 1:00 p.m. ET, a two-hour halt ensues. At or after 1:00 but before 2:00 p.m. ET, a one-hour halt ensues. If the DJIA declines by 20% at or after 2:00 p.m., the market is closed for the remainder of the trading session.

¹ This 5% upside and downside price limit policy is in effect during overnight electronic trading hours (between 3:30 p.m. and 8:30 a.m. Central Time ("CT")) which allows participants to trade continuously within the bands of the designated price limits; further, if an equity index futures contract is locked limit at 8:15 a.m. CT and remains so at 8:25 a.m. CT in the lead month futures contract, a trading halt is implemented until 8:30 a.m., the commencement of regular trading hours (floor and electronic trading). During the trading halt, the Exchange provides an Indicative Opening Price of the re-opening of trading on CME Globex, if applicable. If the lead month futures contract is no longer locked limit at 8:25 a.m. CT, trading will continue with the 5% limit in effect. At 8:30 a.m. CT, the 5% limit is replaced by the broader limits applicable to regular trading hours.

- There is an absolute daily limit of 30% such that if the DJIA should decline by 30%, trading is halted for the remainder of the day.

Trading in CME Group domestic stock index products is halted whenever a NYSE Rule 80B halt is in effect.

II. Recent SEC, Stock Exchange and FINRA Actions

The Securities and Exchange Commission ("SEC"), the stock exchanges and the Financial Industry Regulatory Authority, Inc. ("FINRA") have recently taken actions that are designed to prevent the recurrence of the events of May 6. On June 10, the SEC approved stock exchange and FINRA rule changes that implemented single stock circuit breakers on a pilot basis extending through December 10, 2010 (the "Pilot Program"). The Pilot Program established rules that call for a pause in the trading of any component stock of the S&P 500 Index when the price of any such stock moves 10% or more over a rolling five minute period. Upon the occurrence of a triggering price move, the stock's primary listing market is required to disseminate a special indicator over the consolidated tape to prompt the halting of trading in the stock on all venues for a minimum of five minutes. If the primary listing market does not reopen the stock within 10 minutes, other markets are allowed to resume trading. On June 30, 2010, the stock exchanges and FINRA filed additional rule change proposals (the "Rule Filings") to expand the Pilot Program to include stocks in the Russell 1000 Index and 344 enumerated Exchange Traded Products ("ETPs").² The enumerated ETPs include a number of Exchange Traded Funds ("ETFs") that are based on broad-based equity indexes.³

III. CME Has Specific Concerns Regarding the Recent Actions

CME Group believes that the proposed Rule Filings fail to address critical inter-market linkages and could result in potentially significant disruptions to trading across related markets. Certain ETFs included in the proposed expansion are based on the same indexes underlying the most active cash index options, index futures and options on ETFs. If the Rule Filings are adopted, there would be different and uncoordinated halting mechanisms in place for ETFs related to a particular index and the index options, index futures and options on ETFs based on the same index. As has been frequently noted, all of these markets are very closely linked and the absence of effective coordination across comparable markets was one factor cited by many (including the staff of the SEC) as having contributed to certain of the market issues experienced on May 6. Clearly, inconsistent treatment of the same underlying beta exposure would add

² The registered national securities exchanges and FINRA filed similar rule changes to expand the Pilot Program with the exception of the New York Stock Exchange ("NYSE"). The NYSE proposal was limited to expanding its individual stock circuit breaker program to include stocks in the Russell 1000.

³ An ETF is an open-ended registered investment company under the investment Company Act of 1940 that has received exemptive relief from the SEC to allow secondary market trading in the ETF shares. ETFs are generally index-based products, in that each ETF holds a portfolio of securities that is intended to provide investment results that, before fees and expenses, generally correspond to the price and yield performance of the underlying benchmark index.

further stress to the market during periods of turbulence, impeding liquidity and exacerbating risk management challenges.

Additionally, should the proposed Rule Filings be adopted, the trading halts that would apply to ETFs on broad-based indexes would not be coordinated with the market-wide circuit breakers or with the price limits that currently apply to related index futures and options.

Under the Pilot Program, multiple constituent stocks in an index could be halted without a market-wide circuit breaker being triggered. In a macro-market event, individual stocks would likely be halted and opened on staggered timelines, creating complexity and confusion in understanding the index calculation. Market participants would be required to determine for themselves the relevance of the index values that are disseminated and the value impact of index-component stocks that have been halted.⁴ The halting of high capitalization, highly liquid index components would be disruptive for the following reasons:

- The number of halted issues may impact whether the index triggers a market-wide circuit breaker;
- The intra-day index values published and used for risk management purposes may not be reflective of the true value of the underlying market; and
- The risk management capabilities of large liquidity providers in index futures and ETFs who use these products to hedge market-making activity would be adversely affected and this may cause traders to withdraw from the market, further hampering liquidity.

Further, the single stock circuit breakers are calculated in a manner that creates information asymmetries across customer segments with respect to the trigger levels. Because of the trigger methodology, the point at which a circuit breaker will be triggered is not readily observable to retail market participants. In contrast, sophisticated market participants who possess real time access to consolidated security prices and computation processing capabilities will likely employ tools that allow them to determine when a particular instrument is approaching a halt-triggering price, better enabling them to modify their investment and trading decisions.

⁴ Notwithstanding CME Group's objection to the single-stock circuit breakers, to the extent such circuit breakers are employed, it is imperative that uniform policies and procedures be adopted to address circumstances when the computation of the market-wide circuit breaker index value is impacted because of the triggering of stock specific circuit breakers in its component securities. We would urge that the index publisher of the index upon which the market-wide circuit breaker is based be required to monitor and report to the market the percentage, both in index weight and number of securities, of index components that are halted due to the triggering of stock specific circuit breakers.

IV. CME Recommendations

A. Replace Security Specific Circuit Breakers with Less Disruptive Automated Risk and Volatility Mitigation Mechanisms

Instead of continuing or expanding the Pilot Program, CME Group recommends that automated risk and volatility mitigation mechanisms be implemented in place of trading halts in individual securities. Trading halts are intended to protect against the possibility of a broader market breakdown and should not be used to compensate for weaknesses in trading processes. Proven market mechanisms are available that mitigate volatility caused by transitory liquidity gaps and that minimize the risk of clearly erroneous trades - without the need for disruptive market halts and without the disruption associated with error trades and their cancellation. Although CME Group is supportive of the goals of the Pilot Program, we believe its objectives can be more effectively achieved by adopting the mechanisms described below.

First, CME Group recommends that all trading venues adopt automated means, similar in function to the CME Group's stop logic functionality, to briefly pause the market in the event that cascading sell orders precipitate a material market decline because of a transitory dearth of liquidity. The momentary pause afforded by stop logic functionality allows an opportunity for liquidity to be replenished and, in a highly automated market, the pause can reasonably be calibrated in seconds without substantive impacts on the broader market. The benefit of this type of functionality was clearly evident on May 6 as stop logic functionality on CME Globex triggered a five second pause in E-mini S&P futures market, during which time buy side liquidity came into the market, leading the reversal of the broader market decline.

Second, CME Group recommends that all markets employ functionality similar to the protection point functionality employed by CME Globex to automatically apply limit prices to all orders, including market and stop orders. This type of automated functionality precludes such orders from being executed at unreasonable levels when there is a temporary absence of liquidity in the market and allows new liquidity to enter the market and fill the orders at reasonable levels. This functionality also substantially mitigates the likelihood of clearly erroneous trades by preventing the execution of trades at prices substantially away from the market's fair value. We also believe that the prompt elimination of stub quoting practices will be useful in mitigating such trades.

Third, CME Group recommends that all markets employ automated price banding functionality and maximum order size restrictions, which substantially reduce the occurrence of "fat-finger" error trades by automatically rejecting orders that are entered at aberrant prices or for aberrant quantities.

Under the Pilot Program as currently constructed, a single errant trade can have the effect of causing a halt in the trading of a security.⁵ Clearly, isolated errors caused by human error or system malfunction

⁵ In each of the three implementations of the new single security circuit breakers to date, the cause of the halt was an errant trade and trades were subsequently cancelled. For example, on June 29, 2010, 8,820 shares of Citigroup Inc. were reported as an off exchange transaction at \$3.3174, or 13% below the previous price, triggering the circuit breaker. The trade that triggered the halt was subsequently cancelled. Thus, in a stock that trades approximately

are not the types of events that justify the disruption of a trading halt. In addition, allowing isolated errors to disrupt all trading in a security introduces the possibility of a single market actor intentionally halting markets for manipulative purposes. As noted, we believe there should be a focus on ensuring that markets have adopted transparent controls to prevent erroneous transactions from occurring.

Implementing these recommendations will more effectively address the types of issues that the single-security circuit breakers are intended to address without the negative consequences of halting trading in a particular security across all venues. However, for as long as single stock circuit breakers continue to be employed, we recommend that regulators and markets establish uniform policies and procedures for circumstances when the computation of the market-wide circuit breaker index value is negatively impacted due to the triggering of stock specific circuit breakers on its component securities. Further, we would urge the index service provider upon which the market-wide circuit breaker is based to monitor and report to the market the percentage, both in index weight and number of securities, of index components that are halted due to the triggering of stock specific circuit breakers.

B. Adopt Uniform Price Limits for Certain Broad-Based Index Products

As noted above, under the securities exchanges' and FINRA's proposed expansion of the Pilot Program, the circuit breaker trigger methodology for all affected ETFs, including those based upon benchmark indexes, would employ a different calculation than that employed by the market-wide circuit breaker. The Rule Filings propose that when the price of the ETF rises or falls at least 10 % in five minutes, trading in such shares would be halted for a minimum of five minutes. By contrast, the trigger levels for a market-wide trading halt are set quarterly at 10%, 20% and 30% of the DJIA, calculated at the beginning of each calendar quarter, using the average closing value of the DJIA for the prior month. The difference in methodology means that ETFs based on the same index as the market-wide circuit breaker could be halted without the market-wide circuit breaker being triggered and without other products offering similar beta exposure being halted. Therefore, the proposal creates protocols that are not coordinated across markets – precisely the situation that contributed to disruptive and fragmented trading on May 6.

In contrast to trading halts, CME Group recommends adoption of uniform price limits across all broad-based index products based upon the S&P 500, the DJIA, and the NASDAQ 100. This uniformity should be manifested in price limit methodologies and levels that can be consistently applied across all exchange traded and OTC products related to a particular instrument (e.g., index futures, index options, ETFs, options on ETFs, and swaps related to the indexes above). Consistent with our proposed revisions to the market-wide circuit breakers, the individual price limits for each index-linked product would be established at 5%, 10% and 20%. Each price limit threshold would be implemented for 10 minute intervals, during which time market participants would be precluded from trading below the enumerated limit but would be able to trade at or above such limit. At the end of any particular 10 minute period, trading would continue with the next applicable limit in effect. Should a market-wide circuit breaker be triggered while an

800 million shares a day, a single off-exchange error processed by a broker halted all market trading in a highly liquid security.

individual index price limit were in effect, the timing and trigger levels of the market-wide circuit breaker would supersede the timing and trigger levels of the individual price limit.

We recognize that ETF sponsors desire, on behalf of the retail community, to prevent a repeat of the situation on May 6 in which a large proportion of cancelled trades involved ETFs, and that the sponsors have therefore embraced single security circuit breakers for these products to remediate that issue. However, ETF activity in general is highly concentrated in a small number of domestic large cap index products, specifically products based upon the S&P 500, the DJIA and the NASDAQ 100. Table 1 below provides the average daily notional volume traded in the SPDR S&P 500 ETF (SPY), the PowerShares QQQ (QQQQ), and the SPDR Dow Jones Industrial Average (DIA) as well as the same information regarding the Top 10 ETFs busted on May 6.

Table 1.

	Name	YTD Notional ADV (As of 7/15/2010)
<i>Most Actively Traded ETFs</i>	SPDR S&P 500 ETF	\$26,307,196,044.78
	Powershares QQQ	\$ 4,642,413,768.66
	SPDR Dow Jones Industrial Average	\$ 1,267,709,247.76
<i>May 6 Top 10 ETFs Busted Based Upon \$ADV</i>	ProShares UltraShort QQQ	\$ 348,739,108.21
	iShares Russell 1000 Growth Index Fund	\$ 155,254,023.58
	iShares Russell 2000 Value Index Fund	\$ 144,838,708.58
	iShares Russell 1000 Value Index Fund	\$ 132,164,184.48
	Vanguard Total Stock Market ETF	\$ 123,201,429.10
	ProShares Ultra Real Estate	\$ 120,257,955.22
	iShares Russell 1000 Index Fund	\$ 119,246,743.58
	iShares Russell Midcap Index Fund	\$ 78,286,270.60
	iShares S&P MidCap 400 Index Fund	\$ 78,212,962.01
	iShares Russell Midcap Value Index Fund	\$ 64,138,745.67

As the data reflects, the trades cancelled on May 6 were not in the equity index ETFs that are based upon unleveraged U.S. domestic, large cap, index products; rather, the ETFs whose trades were busted were in less liquid, style or sector or inverse leveraged products. Therefore, our recommendation that liquid broad-based index ETFs be subject to price limits that are coordinated with other products offering similar beta exposure simply reflects the differentiated liquidity profile and important inter-market linkages of these instruments relative to the broader universe of ETFs. The objectives of preserving price integrity and addressing the high incidence of error trades in the less liquid ETFs on May 6 are more effectively addressed by our recommendations in Section A above.

C. Current Market-wide Circuit Breaker Parameters Should Be Amended

The most impactful step the industry can take to promote investor confidence and address the issues that occurred on May 6 is to amend the parameters of the market-wide circuit breakers. Despite widespread concerns about the speed and scope of the market decline on May 6, the current market-wide circuit breakers were not triggered. CME Group recommends lowering the current circuit breaker percentage thresholds. Today, the circuit breaker rules are triggered based upon 10%, 20% and 30% declines in the DJIA; and, as noted, none of these levels were breached on May 6. We believe that the triggering of market-wide circuit breakers should be prudently imposed at levels that protect the market system and promote investor confidence, but are infrequent in occurrence; therefore, while recognizing the need for broader industry input and review, we recommend implementing market-wide circuit breakers based upon lower thresholds of 5%, 10% and 20%. Although it is possible to contemplate other trigger methodologies, e.g., a percentage move over a specified time horizon, we believe that pre-established and observable limits better facilitate market participants' understanding of the circuit breakers and allow for more effective coordination across venues.

In addition to lowering the circuit breaker thresholds, we recommend shorter halts and simplification of the time of day application of the different thresholds. Given today's highly automated market structure and sophisticated information processing technology, less lengthy halts are necessary to allow the market to assimilate information, assess risk and attract liquidity. Specifically, we believe that there should be a 10 minute halt in the event of a 5% move, a 30 minute halt in the event of a 10% move and a closing of the market for the remainder to the trading day in the event of a 20% move.

We further recommend that the 5% circuit breaker level become inapplicable (with the 10% limit in effect) beginning at 3:30 p.m. Eastern Time ("ET"); if the 10% limit were hit at 3:30 p.m. ET or afterwards, the market would be halted for the remainder of the trading day. In the event the 5% limit were hit prior to 3:30 p.m. ET, and the 10% limit were hit after 3:30 p.m. ET, the market would similarly be halted for the remainder of the trading day.

In light of the lower percentage thresholds, we also recommend that the timeframe for calculating the baseline price for establishing these triggers be shortened. Currently, this baseline is reset on a quarterly basis; we believe the reset should occur on a monthly basis and be calculated based upon the average closing price of the relevant index for the immediately preceding month. This would ensure that the baseline price would be established based upon a value that was updated more frequently to be reflective of underlying market conditions.

V. Conclusion

CME Group welcomes the efforts of the SEC, the stock exchanges and FINRA to act quickly to respond to the circumstances giving rise to the market events of May 6. We do believe, however, that the Pilot Program and the Rule Filings may have unintended consequences that lead to disruption of the markets.

Ms. Elizabeth M. Murphy, U.S. Securities and Exchange Commission

July 30, 2010

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As set forth in the recommendations above, we believe that an inter-market approach involving a coordinated blend of available tools is the best approach to addressing the problems that occurred on May 6. We look forward to working closely with the regulators, exchanges and the industry to provide thoughts and recommendations to ensure the integrity of the markets and to promote market confidence among market users.

Sincerely,

Craig Donohue
Chief Executive Officer

cc: The Honorable Mary L. Schapiro, Chairman, SEC
The Honorable Kathleen L. Casey, Commissioner, SEC
The Honorable Elisse B. Walter, Commissioner, SEC
The Honorable Luis A. Aguilar, Commissioner, SEC
The Honorable Troy A. Paredes, Commissioner, SEC
Mr. Robert Cook, Director, Division of Trading & Markets, SEC

The Honorable Gary Gensler, Chairman, CFTC
The Honorable Michael Dunn, Commissioner, CFTC
The Honorable Bart Chilton, Commissioner, CFTC
The Honorable Jill Sommers, Commissioner, CFTC
The Honorable Scott O'Malia, Commissioner, CFTC



December 8, 2010

Senator Carl Levin
Chairman
Permanent Subcommittee on Investigations
Russell Senate Office Building, SR-269
Washington, DC 20515

Dear Senator Levin:

NYSE Euronext appreciates your efforts to hold a joint hearing December 8, 2010 entitled "Examining the Efficiency, Stability, and Integrity of the U.S. Capital Markets". Per your request, we wanted to provide you with our previously articulated views regarding two important issues currently resting with the Securities and Exchange Commission (SEC). Specifically, we want to express our support for both a consolidated audit trail as well as market wide circuit breakers, or similar methodology, designed to prevent erroneous trades that have become commonplace in the market.

In May of 2010, the SEC proposed rules that, if adopted, would provide regulators with the necessary data needed to reconstruct a trading event like occurred on May 6th. As we expressed in our August 9, 2010 comment letter¹ to the rule, NYSE Euronext believes that if regulators are to surveil effectively for illicit trading activity, there must be an ability to uniformly obtain a complete view of all trading activity across markets. While we believe the cost and length of time to implement real-time data reporting as proposed in the SEC's release may outweigh the benefits, we believe significant progress could be made in a relatively short period of time if the SEC took a first step of gathering uniform data on an end-of-day basis from every market into one reporting system. As referenced in our Concept Release comment letter, we also believe similar benefits could be achieved by establishing a consolidated regulator for the marketplace².

We also believe that circuit breakers, potentially augmented by limit up/ limit down methodologies, are a good way to inject rationality into times of marketplace uncertainty and stress. In a world where we are measuring execution speeds in millionths of a second, allowing markets to pause for liquidity to reaggregate and judgment to weigh-in is essential to any healthy marketplace. NYSE Euronext has applied this logic to our market structure through the use of Liquidity Replenishment Points or LRPs. LRPs temporarily and

¹ <http://www.sec.gov/comments/s7-11-10/s71110-46.pdf>

² <http://www.sec.gov/comments/s7-02-10/s70210-154.pdf>



Senator Carl Levin
December 8, 2010
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automatically pause trading in stocks when significant price movement occurs. On a typical day, LRPs are triggered a few hundred times, lasting generally for a few seconds at most. When LRPs are in effect, our quote is visible to other market participants and new orders are accepted. However, LRPs are not utilized market-wide, and we believe the marketplace would benefit from similar market-wide mechanisms³.

Again, we appreciate your efforts to review these and other important issues facing our markets.

Sincerely,



³ <http://www.sec.gov/comments/265-26/265-26-26.pdf>