Trading Halt

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What Is a Trading Halt?

A trading halt is a temporary suspension of trading for a particular security or securities at one exchange or across numerous exchanges. Trading halts are typically enacted in anticipation of a news announcement, to correct an order imbalance, as a result of a technical glitch, or due to regulatory concerns. When a trading halt is in effect, open orders may be canceled and options still may be exercised.

How a Trading Halt Works

A trading halt is most often instituted in anticipation of an announcement of news that will affect a stock's price greatly, whether it be positive news or negative news. There are thousands of stocks traded each day on public exchanges such as the New York Stock Exchange (NYSE) or the NASDAQ, and each of these companies agrees to pass on material information to the exchanges prior to announcing it to the general public.

In order to promote the equal dissemination of information, and fair trading based on that information, these exchanges may decide to halt trading temporarily, before such information is released. Material developments that warrant a trading halt can include changes that relate to a company's financial stability, important transactions like restructurings or mergers, public announcements related to a company's products like a recall, personnel changes to upper management or regulatory or legal announcements that affect the company's ability to conduct business.

Trade resumption refers to the commencement of trading activities after they have been shut down or halted for some period of time.

KEY TAKEAWAYS

- A trading halt is a temporary suspension of trading for a particular security or securities at one exchange or across numerous exchanges.
- Trading halts are typically enacted in anticipation of a news announcement, to correct an order imbalance, as a result of a technical glitch or due to regulatory concerns.
- Halts may also be triggered by severe down moves, in what are called circuit breakers or curbs.

Trading Halts at Market Open

Companies will often wait until the market closes to release sensitive information to the public, in order to give investors time to evaluate the information and determine whether it is significant. This practice, however, can lead to there being a large imbalance between buy and sell orders in the lead up to the market open. In such an instance, an exchange may decide to institute a an opening delay, or a trading halt immediately at the market open. These delays are usually in effect for no more than a few minutes, until balance between buy and sell orders can be

A **trading curb** (typically known as a **circuit breaker**[1] in Wall Street parlance) is a financial regulatory instrument that is in place to prevent stock market crashes from occurring, and is implemented by the relevant stock exchange organization. Since their inception, circuit breakers have been modified to prevent both speculative gains and dramatic losses within a small time frame. When triggered, circuit breakers either stop trading for a small amount of time or close trading early in order to allow accurate information to flow among market makers and for institutional traders to assess their positions and make rational decisions.

Description

On the New York Stock Exchange (NYSE), one type of trading curb is referred to as a "circuit breaker". These limits were put in place after Black Monday in 1987 in order to reduce market volatility and massive panic sell-offs, giving traders time to reconsider their transactions. The regulatory filing that makes circuit breakers mandatory on United States stock exchanges is Securities and Exchange Commission Rule 80B.[2] It is there that the specifics of circuit breakers are elaborated and the various price limits are outlined for investors to see.

The most recently updated amendment of rule 80B went into effect on April 8, 2013, and has three tiers of thresholds that have different protocols for halting trading and closing the markets.

At the start of each day, the NYSE sets three circuit breaker levels at levels of 7% (Level 1), 13% (Level 2) and 20% (Level 3). These thresholds are the percentage drops in value that the S&P 500 Index would have to suffer in order for a trading halt to occur. Base price levels for which these thresholds will be applied are calculated daily based on the preceding trading day's closing value of the S&P 500. Depending on the point drop that happens and the time of day when it happens, different actions occur automatically: Level 1 and Level 2 declines result in a 15-minute trading halt unless they occur after 3:25pm, when no trading halts apply. A Level 3 decline results in trading being suspended for the remainder of the day.[2]

Circuit breakers are also in effect on the Chicago Mercantile Exchange (CME) and all subsidiary exchanges where the same thresholds that the NYSE has are applied to equity index futures trading. However, there is a CME specific price limit that prevents 5% increases and decreases in price during after hours trading.[3] Base prices for which the percentage thresholds are applied are derived from the weighted average price on the future during the preceding trading day's last thirty seconds of trading. Price limits for equity index and foreign exchange futures are posted on the CME website at the close of each trading session.[4]

There is a security specific circuit breaker system, similar to the market wide system, that is known as the "Limit Up - Limit Down Plan" (LULD). This LULD system succeeds the previous system that only prevented dramatic losses, but not speculative gains, in a short amount of time. This rule is in place to combat security specific volatility as opposed to market wide volatility. The thresholds for a trading halt on an individual security are as follows. Each percentage change in value has to occur within a 5-minute window in order for a trading halt to be enacted:

- 10% change in value of any security that is included in the S&P 500 index, the Russell 1000 index, and the Invesco PowerShares QQQ ETF.
- 30% change in value of any security that has a price equal to or greater than $1
- 50% change in value of any security that has a price less than $1

The previous trading day's closing price is used to determine which price range a specific security falls into.[5]

Founding

Following the stock market crash on October 19, 1987, the United States President Ronald Reagan assembled a Task Force on Market Mechanisms, known as the Brady Commission, to investigate the causes of the crash. The Brady Commission's report had four main findings, one of which stated that whatever regulatory agency was chosen to monitor equity markets should be responsible for designing and implementing price limit systems known as circuit breakers. The original intent of circuit breakers was not to prevent dramatic but fair price swings, rather to allow time for sufficient communication between traders and specialists. In the days leading up to the crash, price swings were dramatic but not crisis-like. However, on Black Monday the crash was caused by lack of information flow through the markets among other discrepancies such as lack of uniform margin trading rules across different markets.[6]

Instances of use

On October 27, 1997, under the trading curb rules then in effect, trading at the New York Stock Exchange was halted early after the Dow Jones Industrial Average declined by 550 points.[7][8] This was the first time US stock markets had closed early due to trading curbs.

Since then, circuit breakers have evolved from a Dow Jones Industrial Average points-based system into a percentage change system that tracks the S&P 500.

Then SEC Chairman Arthur Levitt Jr. believes this use was unnecessary,[9] and that market price levels had increased so much since circuit breakers were implemented that the point based system triggered a halt for a decline that was not considered a crisis.[10] Some, like Robert R. Glauber, suggested in the aftermath of the circuit breaker tripping that trigger points be increased, and automatically reset by formula on an annual basis.[9]

On March 9, 2020, the Dow Jones fell by 7.79% (2,013 points) on fears of the COVID-19 coronavirus and falling oil prices, and the S&P 500 triggered a market shutdown for 15 minutes just moments after opening. Three days later on March 12 and again on

March 16 early trading again tripped the level-1 circuit breaker when the markets dropped over 7%.[11] On March 18 the breaker was triggered again at one in the afternoon, several hours after trading opened.