

# U.S. Equities News

No. 2 December 2008

## By the Numbers

### NYSE Euronext US Equities November 2008

(Shares in millions and Total Share of  
Consolidated Volume)

#### NYSE Listed Issues

Handled	2,888	47.4%
Matched	2,599	42.6%

#### NYSE Arca and Amex Listed

Handled	779	34.3%
Matched	666	29.3%

#### Nasdaq Listed

Handled	452	19.8%
Matched	374	16.4%

#### ETFs

Handled	780	32.8%
Matched	672	28.3%

#### NYSE Arca & Amex Options

Contracts	1,995	17.0%
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Handled volume represents the total number of shares of equity securities and ETFs internally matched on the NYSE Group's exchanges or routed to and executed at an external market center. NYSE Arca routing includes odd-lots. Matched volume represents the total number of shares of equity securities and ETFs executed on the NYSE Group's exchanges.

## NYSE Euronext Completes Acquisition of AMEX

On October 1, 2008, NYSE Euronext completed the acquisition of the American Stock Exchange® (Amex®), enhancing our leadership position in ETFs, cash equities, options, closed-end funds and structured products.

The Amex equities business has been rebranded "NYSE Alternext" and is positioned to be the premier market for the listing and trading of small- and micro-cap companies. NYSE Alternext trades all former Amex listed equities and closed-end funds. For a list of covered securities, please visit [www.nyse.com/nysealternextus](http://www.nyse.com/nysealternextus).

On December 1, the following changes were made in conjunction with the move of the AMEX equity securities trading floor to the NYSE facilities at 11 Wall Street:

- Trading systems were replaced with NYSE technology;
- The next-generation NYSE market model is available;
- New transaction pricing including the maker/taker pricing model;
- New rule set based on current NYSE rules;
- Operational infrastructure changes to the same infrastructure that supports NYSE traders;
- New proprietary data products are available including depth of book products: NYSE OpenBook<sup>SM</sup> and OpenBook Ultra<sup>SM</sup>;
- Enhanced opening and closing processes similar to NYSE processes

### NYSE Alternext Transaction Pricing

The new transaction pricing includes the following:

- Specialist commission billing is discontinued effective December 1, 2008. Members will only be billed for their activity directly by NYSE Alternext.
- Significantly lower transaction fees for customers. New pricing positions NYSE Alternext as a low-cost market center for liquidity takers (\$0.0025 per share), while paying competitive rates to liquidity makers (\$0.0015 per share). Fee changes also include elimination of cancellation fees and reduced routing fees.
- Liquidity providers will receive a rebate of \$0.0015 per share for displayed and non-displayed order types. NYSE Alternext will support all order types utilized on NYSE, and offer among the highest rebates on new dark order types (fully hidden and reserve) in the next-generation model.
- Designated Market Markets (DMMs) will act as dedicated liquidity providers in trading of NYSE Alternext issues. NYSE Alternext pricing aims to incent DMMs to provide better quotations and fill rates. NYSE Alternext will pay rebates to DMMs for providing liquidity and meeting certain quoting requirements.
- The opening auction will be free. Customers will be charged \$0.0005 per share for the closing auction.

To learn more about the transition of Amex to NYSE Alternext, visit our website: [www.nyse.com/nysealternextus](http://www.nyse.com/nysealternextus).



## Introduction of the New York Block Exchange (NYBX)

Pending SEC approval, NYSE Euronext and BIDS Trading will introduce the latest innovation for accessing dark liquidity: the New York Block Exchange<sup>SM</sup> (NYBX). The facility will have the ability to continuously search the NYSE order book to match dark orders internally, access displayed and reserve orders and even route away to other market centers.

- NYBX combines the biggest global exchange with 11 of the largest broker/dealers in the world.
- NYBX is a unique block trading facility that allows non-displayed block liquidity to interact with all aspects of the NYSE market, including displayed and reserve book liquidity.
- By bridging BIDS Trading's non-displayed market with the liquidity of the NYSE, fragmentation is reduced, improving speed and price for block executions while maintaining client anonymity.

### Eligible Participants

NYBX will be available to all market participants with no restrictions, including NYSE members and their sponsored firms as well as BIDS Trading clients, including broker dealers, investment managers, hedge funds and algorithmic traders. Participants will simply need to fill out an NYBX user agreement.

### NYBX Trading Hours & Eligible Securities

- Pre-Open 3:30 a.m. ET
- Core Trading 9:30 a.m. to 4 p.m. ET

In the pre-open, orders will be accepted but not executed. Any order entered before 3:30 a.m. ET time will be rejected. NYBX orders will not participate in the actual openings and will be eligible to trade after the first quote is received from the primary market for that security. Orders entered after the 4 p.m. ET close will be rejected. All NYSE- (Tape A), AMEX- (now NYSE Alternext) and NYSE Arca- (Tape B), and Nasdaq- (Tape C) listed securities will be eligible to trade on the new facility.

### ArcaDirect is Now Even Faster!

ArcaDirect is the fastest order entry method available for NYSE Arca Equities and Options customers and it just got faster. Because it is written in NYSE Arca's internal protocol, no translating is necessary, saving valuable processing time.

- ArcaDirect's average response time in order volume is 800 microseconds
- ArcaDirect has seen the number of orders handled increase by over 50 % on the NYSE Arca equities and options platforms
- ArcaDirect has added PO+ and PNP Blind support
- ArcaDirect will be adding Risk Management tools on a per order, per symbol and per firm basis across multiple sessions

## Intra-Day Matching Now Available for NYSE MatchPoint

The NYSE MatchPoint<sup>SM</sup> trading facility is now available for intra-day matching sessions. NYSE MatchPoint's intra-day matching sessions run every hour at seven designated times during regular NYSE trading hours using the midpoint of the National Best Bid and Offer (NBBO). The intra-day matching sessions enable users to access consolidated liquidity in a non-displayed exchange facility.

Beginning at 9:45 a.m. ET, then every hour on the hour, NYSE MatchPoint intra-day matching sessions will occur followed by the after-hours matching session, which occurs at 4:45 p.m. ET.

<b>Intra-Day Matching Sessions</b>	9:45 a.m. ET
	10:00 a.m. ET
	11:00 a.m. ET
	12:00 p.m. ET
	1:00 p.m. ET
	2:00 p.m. ET
	3:00 p.m. ET
<b>After-Hours Matching Session</b>	4:45 p.m. ET

NYSE MatchPoint's "point-in-time" matches aggregate a wide spectrum of liquidity from passive, cash and risk-sensitive portfolios to active, large block-seeking orders. The facility's point-in-time model eliminates information leakage found in the continuous dark pool environment. NYSE MatchPoint does not broadcast or respond to Indications of Interest (IOI), accommodate high frequency order flow or enable algorithms from "pinging" its liquidity. Our portfolio-based approach does accommodate indexers, portfolio rebalances



and transitions, which greatly enhances block liquidity and diversity.

NYSE MatchPoint has the utility, oversight, reach and neutrality of an exchange and the innovation, versatility and unique value proposition of an Alternative Trading System (ATS), an elegant and powerful combination. To learn more about the NYSE MatchPoint facility, visit: [www.nyse.com/nysematchpoint](http://www.nyse.com/nysematchpoint)

## NYSE Arca Auctions Expand to Include ALL ETFs and ETNs

NYSE Arca Market Order and Closing Auctions have been expanded to include all ETFs and ETNs listed in the National Market System. Non-primary listed ETFs and ETNs will be eligible to trade in the auctions but those securities will not be assigned a Lead Market Maker (LMM).

All market orders in eligible ETFs and ETNs received prior to 9:30 a.m. ET are no longer sent to the primary market but instead participate in the Market Order Auction. Orders that want to be executed in the primary market must be sent as Primary Sweep Orders (PSO). A PSO is a Primary Only Order that first sweeps the NYSE Arca book.

For a list of additional securities that became eligible for auction processing on September 15th, visit: [www.nyse.com/nysearcaauctions](http://www.nyse.com/nysearcaauctions).

## NYSE Arca Auction Overview

### Market Order Auction:

The Market Order Auction serves as a bridge

between the opening session and the core trading session. Between 4:00 a.m. ET and 9:29 a.m. ET, market orders, limit orders and auction-only limit orders may be entered to participate in the Market Order Auction. The Market Order Auction will occur at 9:30 a.m. ET at the price at which the maximum volume of orders are executable at the time of the auction, known as the Indicative Match Price. If two or more prices can maximize the executable volume, the Market Order Auction occurs at the price closest to the previous closing price.

### Closing Auction:

Between 9:30 a.m. ET and 3:59 p.m. ET, all live displayed orders participating in the core trading session and all Market on Close and Limit on Close order types may be entered to participate in the Closing Auction. The Closing Auction takes place at 4:00 p.m. ET at the Indicative Match Price.

For more information, go to [http://www.nyse.com/pdfs/5653\\_NYSEArca\\_Auctions.pdf](http://www.nyse.com/pdfs/5653_NYSEArca_Auctions.pdf)

## Order Type Talk

NYSE Euronext is committed to providing traders with the most innovative order types. NYSE equities traders now have two new order types for trading dark liquidity: the Minimum Display Reserve Order and the Non-Displayed Reserve Order. Additionally, NYSE Arca equities traders who want immediate routing to the primary markets of an underlining equity now have the PO Plus Order (PO+) type.

### Minimum Display Order

This is a modification to the Reserve Order that continues to allow off-floor market participants to display partial quantities of an order while the remaining balance is undisplayed in

the reserve portion. This interest is now available to the DMM (through a “market look template”) when he or she provides information about buying or selling interest in the market to NYSE floor brokers.

- Fully protected both electronically and manually
- 100-share minimum posting requirement
- Available in “market look” template (provides users access to aggregate liquidity through the use of a floor broker)
- Discovery eligible to attract contra-side interest.

Since Reserve Orders are considered to be resting interest on the book, it will price-improve the incoming order.

### Non-Displayed Reserve Order

This is a modification to the Reserve Order for NYSE equities traders, allowing off-floor market participants to enter completely anonymous interest. This new version of the Reserve Order participates in automatic-order executions but will not be protected in a manual execution and does not participate in the open or close. The DMMs do not have access to Non-Displayed Reserve Orders.

- Fully protected on electronic trades;
- Not protected on manual trades;
- No minimum display requirement
- Not visible and not discovery eligible;
- May post between the BBO.

Floor brokers can use the Non-Displayed Reserve functionality, which will participate in manual executions because it is visible to the DMM. If floor brokers do not want their interest to be displayed to the DMM, they must designate the order as “Do Not Display” (DND). This type of Reserve Order also provides price improvement to an incoming order.



## PO+ Order

The PO+ order type allows NYSE Arca customers to send a directed order for immediate routing to the primary listing exchange, without first sweeping the NYSE Arca order book. PO+ orders are eligible for entry and execution throughout the primary listing market's eligible trading session.

The order type is an enhancement to the PO order type that allows users to route to the primary listing market for the opening. The new PO+ order can be entered as an Immediate-or-Cancel (IOC) order, or as a Day Order that will remain open until the order is either executed or cancelled. Additionally, the new PO+ order type supports reserve orders.

NYSE Amex Options will launch its new trading platform based on NYSE Arca technology and open the doors to its new trading floor, at 11 Wall Street, on February 9, 2009.

## TradeCheck Introduced to European Markets

TradeCheck<sup>SM</sup> is a complete, low-cost solution to calculate, analyze and demonstrate execution quality in trades executed on European markets including Euronext cash markets.

TradeCheck offers you three complementary post-trade functionalities that cover detailed execution and order-book information on a large number of European cash exchanges and trading venues. You can ask for simple or multiple trade checks across one or more markets.

**1. Execution Quality Analysis** Execution Quality Analysis checks best execution and helps answer questions about particular equity trades executed at a single moment in time. It identifies whether or not a trade has executed at the best possible price considering all execution venues.

**2. Transaction Cost Analysis** Transaction Cost Analysis, intended for more complex equity trades, analyzes the quality of an achieved transaction price by comparing this price with various benchmark prices (such as Arrival Price or VWAP), within a defined time period about the time of the trade. It identifies implicit trading costs and calculates execution performance.

**3. Order Book Replay** Order Book Replay allows you to view the depth of the market at a chosen moment by rebuilding the order books for one or multiple markets and replaying them forwards and backwards in time. You can replay order books from each exchange individually, but also combine order books for fungible instruments traded on more than one venue. The single and consolidated order book can be aggregated and disaggregated on price level.

TradeCheck is the complete solution for every market participant that wants to efficiently check or demonstrate its trading performance and is actively dedicated to optimizing its trading processes.

- **Buy-side** investment firms can analyze their trade performance and evaluate the quality of execution provided by their brokers. TradeCheck helps investors monitor the quality of the trade execution.
- **Sell-side** broker/dealers can answer customer queries related to the execution performance of their trades and provide transparency via a report to their clients and

other stakeholders. They can evaluate their traders' performance.

- **Compliance, Risk Management Officers and Regulation** can use TradeCheck to check whether or not MiFID requirements and European market regulations have been met.

## Getting Started

TradeCheck is available either through a secured Web site to suit the requirements of individual users, or as an automated, easy-to-integrate XML web service that offers the ability to create execution analysis statistics and tailor-made customer reports.\* The TradeCheck Web service provides an online single or multi-venue execution analysis report of each trade, with the possibility of printing in .pdf format. When using the TradeCheck XML service you need to set up the predefined XML connection to the hosting server, to automate the request and delivery mechanism of the details of the trades you wish to analyze. The host will return the execution analysis statistics in XML format. This allows you to process large quantities of trades and customize the reports according to your own needs.

\*TradeCheck Order Book Replay is not available as XML Web service.

To learn more about TradeCheck, contact your Client Relationship Representative or visit the TradeCheck website at [www.nyxtradecheck.com](http://www.nyxtradecheck.com).



## Street Sense (Q&A)

The next-generation NYSE market model was approved by the SEC on October 24, 2008. The rollout is being completed in December. We asked Designated Market Maker (DMM) Daniel O'Donnell to share his thoughts on the enhanced model, what makes the DMMs unique and the importance of human interaction in a millisecond trading world. To see Daniel's video interview, visit: [www.nyse.com/streetsense](http://www.nyse.com/streetsense)



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Daniel C. O'Donnell is Managing Director and Head of Portfolio Management for Banc of America Specialist. As President of the specialist broker/dealer, he is responsible for all NYSE floor trading as well as off-floor strategic trading. He is a member of the firm's Management Committee, has served as the Chairman of the firm's Quality and Performance Committee and has over 22 years of experience on the trading floor of the New York Stock Exchange.

Dan joined Banc of America Specialist in 1996 and was named Post Supervisor in 2002, successfully assuming responsibility for supervising 25 traders and over 200 listed company stocks. He played a key role in the firm's transition to the NYSE Hybrid Market and has actively represented Banc of America in negotiations with the NYSE to continue to make critical market structure changes and shape the next-generation market model.

Mr. O'Donnell has also worked closely with

quantitative analysts in the development and implementation of high-frequency market-making algorithms.

**Q: From a Designated Market Maker's perspective, what benefits will the new market model provide to customers of the NYSE?**

**A:** The three main benefits of the New York Stock Exchange customer in the new market model are:

1. the increase in speed of execution
2. the increase in liquidity and
3. the dampening of volatility

All of this will be done in the high-tech, high-touch world. The increased technology will allow the DMM to help inject capital and liquidity in a high-frequency electronic world, particularly surrounding the NBBO, or National Best Bid Best Offer. The high-touch world of the DMM will still have price discovery at the opening and the close, price improvement intraday, added liquidity and dampening of volatility. The new model will give NYSE customers the most competitive execution opportunities to accommodate all trading strategies.

**Q: What are the main differences between the old NYSE model and the next-generation market model?**

**A:** The main difference from the hybrid model is the improved ability for the Designated Market Maker to commit capital to this new market. The new rule set, including parity, will allow us to trade on a level playing field with other market participants. This level playing field enables the Designated Market Maker to put our capital to work far more efficiently than we ever could. At the same time, the increase in speed from the new technology will allow us to trade far more frequently than we ever did. Parity with incoming orders on the NYSE's display book

will result in additional liquidity to facilitate trading and improve the quality of our markets for our customers.

**Q: What makes a DMM unique, with respect to other market makers in different venues?**

**A:** The Designated Market Maker on the floor of the NYSE is unique because the DMM has the sole responsibility for making a market in that underlying stock. The DMM also is accountable to the New York Stock Exchange, as well as to the listed company. Having a human at the point of sale is a key differentiator in our marketplace. I often said when flying a plane to Florida, it's great to have auto pilot to get you there in a timely fashion. However, when I take off, land, or in times of turbulence, I want a qualified pilot with a hand on the wheel. That's your Designated Market Maker on the floor of the NYSE.

Another key differentiator is the Capital Commitment Schedule. The Capital Commitment Schedule sits on the Display Book. It is a preset source of liquidity for the public to tap into at any point in time. It is just another way for us to dampen volatility and increase our market quality.

**Q: In a sub-second execution world, can a DMM add meaningful value to the market?**

**A:** The faster the market, the greater the need for a Designated Market Maker. Having an actual human at the point of sale who can react to unusual trading instantly and reduce errors ensures orderly trading. We use algorithms to commit capital, add depth and continuity. New tools like the Capital Commitment Schedule will enable DMMs to add much-needed liquidity in a sub-second world. With a new rule set and new technology we can interact with orders 15 to 20 times, in one stock, in less than one second.



**Q: Now that DMMs are on equal footing with other market participants, how can they still dampen volatility and provide price improvement?**

**A:** Not only can Designated Market Makers still dampen volatility and provide price improvement, but with parity, we can do it far more efficiently than ever before. Parity gives the general public the ability to access our liquidity more frequently. The NYSE customer gets the benefits of increased liquidity and decreased volatility. Our ability to commit capital will lead to an increase in price improvement for our customers. This price improvement, millions of times a day, across our listed stocks results in tremendous savings for the public. Greater efficiencies that result from the next-generation market model will improve market quality and benefit all market participants and customers of the New York Stock Exchange.

## Upcoming Events

**STA of Chicago - 83rd Annual Mid-Winter Meeting (Chicago, IL)**

January 22-24 2009

## Exchanges - Web Blog

Exchanges is a blog about the markets, products and services of NYSE Euronext, the world's leading exchange group. Our goal is to share information and insights with customers and the public. The name of the blog signals that it's about markets and that we want to have an open, multi-way exchange of ideas.

Exchanges welcomes questions and comments. We allow anonymous or pseudonymous comments, although we prefer signed comments, which we believe carry more weight in the online conversation. We also do our best to answer questions and respond to comments within the constraints of the fact that blogging is not a full-time gig for any of us.

So visit <http://exchanges.nyse.com> to read a posting, participate in a discussion, ask a question or simply express your opinion.

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