

Date: February 24, 2009

Audience: NYSE Amex Options Specialists and Options Market Makers

Subject: NYSE Amex Options Opening Auctions

Summary:

In order to assist NYSE Amex options Specialists and Market Makers in establishing a fair and orderly market during the opening auction NYSE Amex will open a series only when the following criterion is met:

- Legal width market maker quotes are present; or
- A legal width away exchange BBO or the aggregate of Market Maker quotes are present; or
- Away exchange quotes that comprise a legal width market are present in the matching engine for that series

The NYSE Amex opening auction process consists of three sequential processes that allow for the maximum number of contracts to be executed: pre-open, opening auction and open sweep followed by core trading.

Part 1 – Pre - Opening

1. Orders may be entered at the start of pre-open state (3:30 a.m. ET)
2. All order types are accepted during the pre-open, but only Market, Limit, MOA, LOA and reserve orders are considered eligible to participate in the opening auction
3. Market Maker Quoting (MMQ) may begin when the pre-open begins (3:30 a.m. ET)
4. A Market Maker quote is allowed to lock or cross an existing market maker quote during the pre-opening
5. During the pre-open, ArcaBook imbalance messages are sent out via the ArcaBook feed. Imbalances are disseminated during the pre-open period (i.e. from the point the system is up and orders exist until the auction occurs)
6. For options, "market order imbalance" means ONLY any remaining buy or sell volume left after buy market vs. sell market orders have been paired off. Limit orders and quoted markets are not included in this calculation, and market order imbalances can be calculated in the absence of a quoted market "opening band"
7. Total Auction Imbalance includes both Limit and Market orders and includes an indicative opening price. Market Maker quotes are required to calculate Total Auction Imbalance

NYSE Late Opens

If after a configurable time following 9:30 a.m. ET, NYSE has not opened an underlying issue, and at least two (2) other exchanges have opened the underlying, then NYSE Amex options will consider the underlying to be open. This is a manual process handled by the Trade Desk.

Legal Width Quotes

Even if the market maker quote used to calculate the opening auction band is only 1 up, the opening price will be established based on a legal width quote, and at that point will have NBBO / sweep collar protection. The following chart identifies the applicable parameters for legal width quotes:

\$0.00 - \$1.99	25 cents
\$2.00 - \$5.00	40 cents
\$5.01 - \$10.00	50 cents
\$10.01-\$20.00	80 cents
> \$20.00	\$1

NOTE: For equity option series with expiration dates > 9 months away and for index option series with expiration dates > 12 months away, the legal width spread is 3x the values in the table above.

The Trade Support Desk will have the ability to override this “legal width” functionality, for cases where the underlying stock opens wide and stays wide, on a “by-underlying” basis.

To request legal width quoting relief for the auction due to exceptional market circumstances, market makers should send an e-mail to NYoptionssurveillance@nyx.com

Part 2 – Opening Auction

At 9:30 a.m. ET, NYSE Amex checks the underlying equity/ETF/Index for parameters necessary to run the opening auction. The auction for a series will occur immediately when these additional conditions are met: NYSE Amex must have at least one legal width internal Market Maker quote that includes an offer or a legal width, logical NBBO in a series.

Logical NBBO

- Includes an offer
- Is not crossed

If there is neither a legal width OPRA NBBO nor a legal width internal BBO, then that option series cannot open. If no orders or quotes lock or cross, no auction will occur.

- The series will open and disseminate top and depth of book
- One price opening is used for all opening auctions
- Auctions include all quotes and orders that are locked or crossed within the auction pricing band
- There may be an auction imbalance left at the end of the opening auction (see section on Sweep)

Part 3 – Opening Sweep

1. Immediately after the opening auction is complete for each option series, the market transitions into the core continuous trading session for that option series
2. Oversized imbalances for multiple listed issues will be routed to the NBBO exchange if NYSE AMEX is not the best price
3. If there are market orders remaining after the open with no MM quotes or away market quotes against which they can trade, Sweep Price Protection will be applied
4. If there are limit orders remaining after the open with no MM quotes or away market quotes against which they can trade, and no market orders being held at a collar price, then limit orders will post at the auction price and trade against any refreshed market maker quote, down to their limit price

Sweep Processing

Any remaining imbalance from auction will wait for a legal width NBBO, or in the absence of an NBBO at an away exchange, one of the following:

- Contra side interest that is within the price protection collar (determined by legal width for a particular option premium), or
- Same side interest that is more aggressively priced

Contact Info:

Further questions may be directed to the Trade Desk at (877) 729-7291.

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