

**Date:** October 7, 2008

**Audience:** NYSE Arca Options Traders

**Subject:** Auction Billing for Sweep Trades in Penny Pilot Issues

**Summary:**

On Monday, October 13, 2008 NYSE Arca Options will introduce auction billing for sweep trades in penny pilot issues.

Currently, auction trades in penny pilot issues are not subject to post/take pricing and trade for free. In response to client requests, auction billing is being expanded to include any orders that are received prior to the auction, and are marketable for auction, but trade as part of an auction imbalance during sweep. Contrary to these orders will also receive auction billing.

**NOTE:** If a client sends a cancel/replace for any volume of an order that did not participate in the auction, the new order will not receive auction billing.

For example; if an auction occurs at \$1.20, and a client has entered an order to pay \$1.20 or greater or a sell order priced at \$1.20 or less, and these orders do not participate in the auction but trade during sweep, the client will receive auction billing.

**Example**

NYSE Arca Auction Band = 1 - 1.20 500 x 500 (market maker quotes)

The order book (orders shown in time priority from top to bottom for bids and offers)

<b>Bids</b>	
Customer 1:	Bids 200 @ 1.20
Customer 2:	Bids 100 @ Market
Customer 3:	Bids 500 @ 1.30
Customer 4:	Bids 200 @ 1.10
Broker Dealer 1:	Bids 800 @ 1.25

<b>Offers</b>	
Customer 5:	Offers 10 @ Market
Broker Dealer 2:	Offers 100 @ Market
Broker Dealer 3:	Offers 20 @ 1.30
Broker Dealer 4:	Offers 50 @ 1.20

The opening price is determined as the price at which the most volume can be traded, within the auction parameter. The imbalance is on the buy side; therefore, the auction will occur at 1.20. All executions listed immediately below 1.20 are free:

Customer 2:	Buys 10 from Customer 5
Customer 2:	Buys 90 from Broker Dealer 2
Customer 3:	Buys 10 from Broker Dealer 2
Customer 3:	Buys 50 from Broker Dealer 4
Customer 3:	Buys 440 from Market Maker Quotes
Customer 1:	Buys 60 from Market Maker Quotes

Once the above transactions have occurred, the auction is complete, leaving a buy imbalance of 940 contracts that will trade during sweep.

Historically, these contracts have been charged take fees. With the changes to sweep billing, these additional 940 contracts and their contras will also receive auction billing for any trade that occurs on NYSE Arca. Any portion of the orders comprising the imbalance that route out during sweep will also receive auction billing, i.e. will not be charged any take fees.

**NOTE:** The BD 3 sell order at 1.30 and the Customer 4 buy order paying 1.10 will NOT be eligible for auction billing as they were not marketable for the auction.

Orders executed during sweep may trade at one or more price levels, i.e. they are not guaranteed to trade at the auction price. For example if there were insufficient liquidity during the auction to satisfy the limit orders in the scenario above, the buy limit orders priced at 1.25 and 1.30 could pay up to their limit if order is not entirely filled during the opening auction but will still be entitled to auction billing. Price protection collars are in place during sweep.

Please see below for NYSE Arca Transaction Costs:

Type	Per Contract Legacy	Post	Take
LMM	\$.09	-\$ .30	\$.45
NYSE Arca Market Maker	\$.16	-\$ .30	\$.45
Broker Dealer & Firm Electronic	\$.50	-\$ .25	\$.45
Broker Dealer & Firm Manual	\$.26	N/A	N/A
Customer Electronic	\$.00	-\$ .25	\$.45
Firm Facilitation	\$.15	N/A	N/A

Please contact your NYSE Relationship Representative or the NYSE Arca Options trade support desk at 877.729.7291 should you have any additional questions.

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