

# Lead Market Making

## Lead Market Making Opportunities in Primary Listings on NYSE Arca

NYSE Arca has established the role of Lead Market Maker (LMM) for stocks and ETFs with a primary listing on NYSE Arca. Lead Market Makers will have defined obligations in addition to incentives such as the ability to interact with Directed Orders as described in more detail below.

### Becoming a Lead Market Maker on NYSE Arca

To participate in the program, broker-dealers who are Equities Trading Permit Holders (“ETP Holders”) must register as Market Makers on NYSE Arca and meet the additional selection criteria established for Lead Market Makers including (but not limited to):

- Experience with making markets in equities and related underlying markets (if any)
- Adequacy of capital
- Willingness to promote the NYSE Arca marketplace
- Issuer preference
- Operational capacity & support personnel

To learn more about the requirements associated with becoming a Market Maker and Lead Market Maker visit our website at: [www.nyse.com/marketmakers](http://www.nyse.com/marketmakers) or contact your NYSE Arca Sales Representative.

### The Role of the Lead Market Maker

The LMM will function as the exclusive Lead Market Maker in NYSE Arca primary listings. Among a Lead Market Maker’s obligations are the following:

#### Quotation / Spread Requirements

- LMMs must maintain continuous, two-sided Q Orders (a Market Maker quote) for each security in which the firm is registered.
- LMMs must meet minimum performance requirements which include the percent of time NYSE Arca is size setting the NBBO, average displayed size, and average quoted spread. Performance requirements will be determined by NYSE Arca.

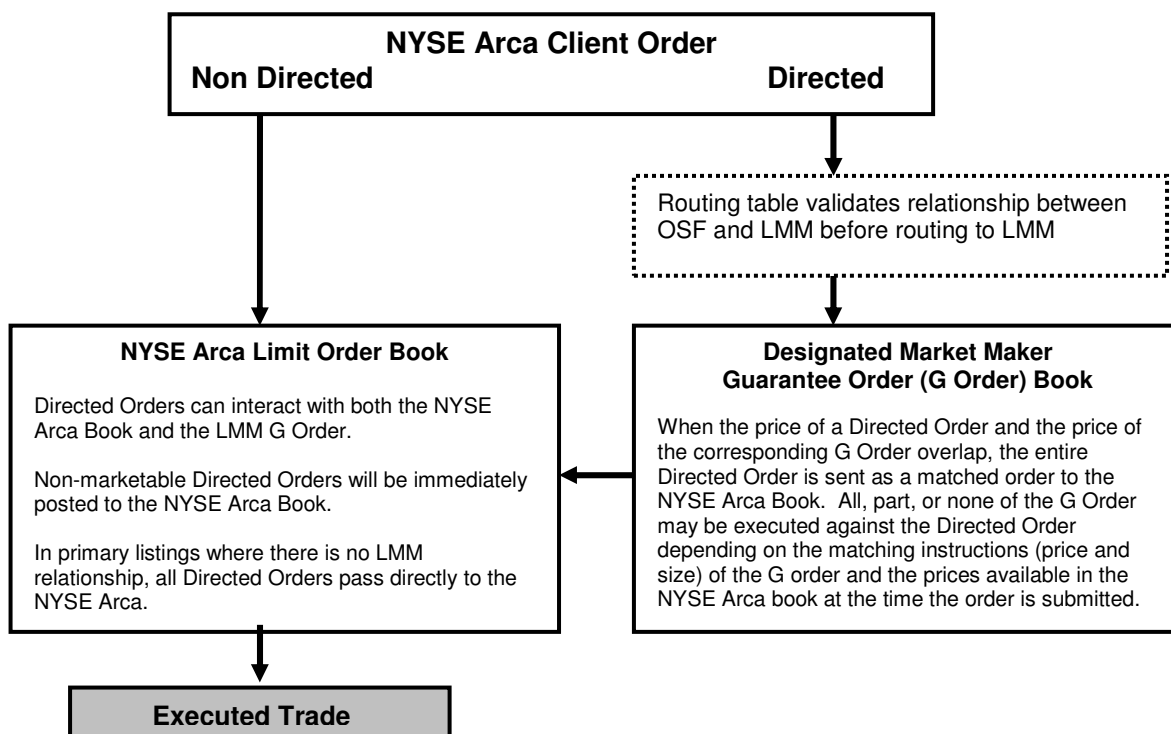
#### Trading-Related Features

- In NYSE Arca primary listed securities, LMMs will be the only Market Makers with access to the NYSE Arca Directed Order Flow Process and the Passive Liquidity Order (“PL Order”).
- LMMs must permission Order Sending Firms (OSFs) to route to the LMM in the Directed Order Flow Process.
- LMMs may also utilize the NYSE Arca Passive Liquidity Order (“PL Order”) in its registered securities.

## The Directed Order Flow Process on NYSE Arca

The NYSE Arca Directed Order Flow Process allows LMMs to trade against orders directed to them from OSFs. As part of the NYSE Arca Directed Order Flow Process, LMMs enter G Orders that correspond to the price/size guarantee a LMM is willing to commit to an OSF in a particular stock.

The following diagram illustrates the order interaction and flow between Directed Orders, Guarantee Orders, and the NYSE Arca limit order book.



## The Guaranteed Order

- G Orders are **only** executable against Directed Orders.
- G Orders correspond to the price/size guarantee a LMM is willing to commit to an OSF in a particular stock.
- G Orders are not displayed in the Book. The G Order never trades ahead of the Book, even if the G order has time priority.
- If a G Order is not successfully executed in full or in part, it remains in the Directed Flow Order Process to await an execution attempt from another Directed Order.
- The LMM may provide multiple buy/sell G Orders for an OSF in a particular stock.

## The Passive Liquidity Order (PL)

- PL Order is executable against directed and non-directed order flow.
- The PL Order is an un-displayed order that will be executed in the NYSE Arca Working Process **after** all other orders which are priced at or superior to the PL Order, including Guarantee Orders ("G Orders").
- PL Order may only execute against an incoming marketable order if one of the following conditions are met:
  - (a) The NYSE Arca Book must be at the NBBO, **and** the LMM has a displayed order on the book priced equal to the NYSE Arca Book **and** quoted size of the displayed order must be at least as large as the incoming marketable order. (see example 6)
  - (b) The NYSE Arca Book must be at the NBBO, **and** the LMM has a displayed order on the book \$0.01 inferior price to the NYSE Arca Book **and** quoted size of the displayed order must be at least twice as large as the incoming marketable order. (see example 8)
  - (c) If the NYSE Arca Book is not the NBBO **and** the PL Order is at least \$0.01 superior price than the NYSE Arca Book **and** the incoming marketable order is not designated as a Intermarket Sweep Order (ISO) per Regulation NMS.
- At a price, PL Orders will always be executed ahead of G orders, regardless of time priority, presuming the LMMs displayed criteria are met.
- LMM may provide multiple buy/sell PL Orders in a particular stock.

## LMM Order Flow Examples

### Directed Order Example 1:

The LMM has permissioned OSF1 to send directed order flow in this security. OSF1 sends a Market Order to sell 1,000 shares, directed to the LMM.

Displayed NBB: \$10.00

Priority	Bid	Size	Venue
1	\$10.00	1,000	LMM G Order
2	\$10.00	200	Away Market
3	\$9.99	500	NYSE Arca Book
4	\$9.99	2,000	NYSE Arca LMM

The LMM fills the entire order at \$10.00. The LMMs G Order is the NBBO and the NYSE Arca BB, which makes the order executable.

## Directed Order Example 2:

The LMM has permissioned OSF1 to send directed order flow in this security. OSF1 sends a 2,000 share Market Order to sell, directed to the LMM.

Displayed NBB: \$10.00

Priority	Bid	Size	Venue
1	\$10.00	1,000	NYSE Arca Book
2	\$10.00	2,000	LMM G Order
3	\$9.99	4,000	NYSE Arca Book
4	\$9.99	5,000	LMM Q Order

The NYSE Arca Book has priority ahead of the LMM G Order, so the order trades against the NYSE Arca Book for 1,000 shares at \$10 and the LMM G order for 1,000 shares at \$10.

## Directed Order Example 3:

The LMM has permissioned OSF1 to send directed order flow in this security, and OSF1 sends a 2,000 share Market Order to sell, directed to the LMM.

Displayed NBB: \$10.01

Priority	Bid	Size	Venue
1	\$10.01	1,000	Away Market
2	\$10.00	2,000	LMM G Order
3	\$9.99	500	NYSE Arca Book
4	\$9.99	2,000	LMM Q Order

The away market price is superior to the LMM price, so 1,000 shares are routed to the best bid on the away market. The balance of the order (1,000 shares) is matched against the LMM bid of 1,000 shares at \$10.00.

## Directed Order Example 4:

The LMM has permissioned OSF1 to send directed order flow in this security. OSF1 sends a 2,000 share non-marketable limit order to sell at \$10.03, directed to the LMM.

Displayed NBB: \$10.01

Priority	Bid	Bid Size	Offer	Offer Size	Venue
			<b>\$10.03</b>	<b>2,000</b>	<b>OSF Order</b>
1	\$10.01	1,000	\$10.03	400	Away Market
2	\$10.00	1,000	\$10.03	1,000	LMM Q order
3	\$9.99	500	\$10.04	2,000	NYSE Arca Book
4	\$9.99	2,000	\$10.04	2,000	LMM G order

The order is not marketable against any prices so it is added and displayed in the NYSE Arca Book.

## Passive Liquidity (PL) Order Example 5:

The NYSE Arca book receives a Non-Directed sell Market Order for 4,000 shares

Displayed NBB: \$9.99

Priority	Bid	Size	Venue
	\$10.01	1,000	LMM PL Order
	\$10.00	2,000	LMM G order
<b>1/ 3</b>	<b>\$9.99</b>	<b>500 R 500</b>	<b>NYSE Arca Book</b>
<b>2</b>	<b>\$9.99</b>	<b>3,000</b>	<b>LMM Q order</b>

The NYSE Arca book fills at \$9.99 for 500 shares (displayed order); the LMM Q Order is filled at \$9.99 for 3,000 shares; and then the NYSE Arca book Reserve Order of 500 shares is filled at \$9.99. The LMM PL Order was not executable because the LMM was not showing at least the size of the incoming sell order.

## Passive Liquidity (PL) Order Example 6:

The NYSE Arca book receives a sell Limit Order for 4,000 shares at \$9.99.

Displayed NBB: \$9.99

Priority	Bid	Size	Venue
<b>1</b>	<b>\$10.01</b>	<b>1,000</b>	<b>LMM PL Order</b>
	\$10.00	2,000	LMM G order
<b>2</b>	<b>\$9.99</b>	<b>5,000</b>	<b>LMM Q Order</b>
3	\$9.99	1,000	NYSE Arca Book

The LMM PL Order is filled for 1,000 shares at \$10.01 and the LMM will be filled for 3,000 shares at \$9.99. The LMM PL Order is eligible to interact because the Q order was the NBB **and** the Q order was displaying at least the same size as the incoming sell order.

## Passive Liquidity (PL) Order Example 7:

The NYSE Arca book receives a sell Limit Order for 4,000 shares at \$10.01

Displayed NBB: \$10.00

Priority	Bid	Size	Venue
	\$10.01	500	LMM PL Order
1	\$10.00	2,000	NYSE Arca Book
2	\$9.99	1000	Away Market
3	\$9.98	6,000	LMM Q order

The sell Limit order is displayed on the NYSE Arca book at \$10.01. The Limit order is not eligible to interact with the PL Order because the LMM Q order (the displayed order) is not within at least \$0.01 cent of the NYSE Arca Book.

## Limit Order Example 8:

The NYSE Arca book receives a sell Limit Order for 5,000 shares at \$10.01

Displayed NBB: \$10.00

Priority	Bid	Size	Venue
<b>1</b>	<b>\$10.01</b>	<b>5,000</b>	<b>LMM PL Order</b>
2	\$10.00	2,000	NYSE Arca Book
3	\$9.99	10,000	LMM Q Order
4	\$9.98	2,000	NYSE Arca Book

The LMM PL is filled for 5,000 shares at \$10.01. The PL Order was executable because the NYSE Arca book was the NBB, the LMM was only one cent below the NBB and LMMs displayed size was twice the size of the incoming order.

## LMM Short Sale Exempt Treatment

Under NYSE Arca rules, a registered Market Maker, which by rule definition includes Lead Market Makers, may sell short exchange-listed securities for which they are registered on a "zero-minus" tick. Currently, the NYSE Arca platform allows Market Makers to utilize short sell exempt on the "zero-minus" tick when using a Q Order or Limit Order, but not the G Order or the PL Order type.

## Exhibit 1: Summary Chart of Lead Market Maker Order Types

Order Type	Features	LMM Fees
Q Order	<ul style="list-style-type: none"> <li>▪ Displayed order</li> <li>▪ Required 2-sided quote, spread and size requirements</li> </ul>	<p>Credit \$0.004 per share for liquidity adding trade</p> <p>Charge \$0.0025 per share for liquidity removing trades</p>
G Order (Directed Fill)	<ul style="list-style-type: none"> <li>▪ Order not displayed</li> <li>▪ Time priority over the PL Order</li> <li>▪ Only executable in the Directed Order Process</li> <li>▪ LMMs set in advance the price and size levels for G order interaction with each OSF</li> </ul>	No Credits per share
PL Order	<ul style="list-style-type: none"> <li>▪ Order not displayed</li> <li>▪ Price priority over the G &amp; Q order</li> <li>▪ Optional order for additional trading opportunities</li> </ul>	<p>Credit \$0.004 per share for liquidity adding trade</p> <p>Charge \$0.0025 per share for liquidity removing trades</p>
Odd Lot Fills	<ul style="list-style-type: none"> <li>▪ Order not displayed (no quote entry is required)</li> <li>▪ Priced at the NBBO</li> <li>▪ Maximum order size of 99 shares</li> <li>▪ Core Trading hours only</li> </ul>	No Credits per share
All other orders in the LMM symbol	<ul style="list-style-type: none"> <li>▪ LMMs may use any of NYSE Arca's order types available to non-LMM clients</li> </ul>	<p>Credit \$0.004 per share for liquidity adding trade</p> <p>Charge \$0.0025 per share for liquidity removing trades</p> <p>Charge \$0.004 per share for orders routed outside the NYSE Arca Book</p>

### Questions? Call us.

If you have any questions regarding becoming a Lead Market Maker on NYSE Arca, or if you require additional information, please contact your dedicated NYSE Arca Sales Representative at 212-656-6900. You can also visit us at [www.nyse.com](http://www.nyse.com).