

Next Generation Model



The **New York Stock Exchange** has filed with the Securities and Exchange Commission a proposal designed to offer customers the most competitive trading experience, and significantly higher market quality than is currently available in the U.S. markets. The next-generation NYSE will offer a balanced combination of high-tech for fast, automated and anonymous order execution; and high-touch for discovering and improving prices, dampening volatility, adding liquidity and enhancing value. The changes outlined below, pending SEC approval, will enable the NYSE to offer the best of both worlds to traders and issuers.

Designated Market Makers: Strong Obligations, New Capabilities

At the center of the NYSE will be the Designated Market Maker (DMM), which will replace the Specialist. DMMs will:

- No longer receive an advance electronic “look” at incoming orders.
- Have obligations to maintain an orderly market for assigned securities, to quote at the National Best Bid or Offer a specified percentage of the time, and facilitate price discovery during market openings, closings and periods of substantial trading imbalances.
- Provide liquidity, including a Capital Commitment Schedule that will be programmed into the NYSE Display Book but will receive no order information.
- Have their performance periodically

reviewed, and will receive transparent economic incentives based on that performance.

In exchange for these obligations and restrictions, DMMs will:

- Be entitled to parity with incoming orders, instead of yielding to public orders on the NYSE Display Book, as specialists do today.
- Be permitted to integrate their floor-based trading operations into a related member firm, subject to strict information barriers. This will give the DMM better access to capital, risk-management tools and will make operations more cost effective.
- No longer be the agent for orders on the Display Book

New, Non-Displayed Reserve Order: An Additional Choice for Customers

The NYSE will introduce a Non-Displayed Reserve Order, which will allow customers to post reserve interest, but with no requirement to display any portion of the order. Note that the DMM will not have access to Non-Displayed Reserve Orders

- The new reserve order will participate in automatic order executions but will not be protected in manual executions and will not participate in the open or close.



**Floor Brokers:
New Tools to Represent Customers
and Source Liquidity More Effectively**

In addition to the changes above, the NYSE is preparing a number of significant enhancements that will dramatically improve the capabilities of NYSE floor brokers in better serving their customers. These initiatives do not require SEC approval.

- Floor brokers will continue to trade their customer orders on parity with other orders, but for the first time, the parity benefit will be integrated with algorithms engineered for the NYSE environment, designed by an NYSE-approved provider. Floor brokers will now be able to offer their customers the competitive benefits of algorithmic speed and strategies benchmarked against the NBBO, directly from the NYSE point of sale.

Block Talk

A new technology feature recently introduced, enables NYSE floor brokers to more efficiently locate deep liquidity. Block Talk is designed to allow floor brokers to broadcast and subscribe to specific stocks they have interest in, creating an opportunity to trade block-sized liquidity that is not accessible electronically. Since the messages contain no specific order information, customers benefit from a discovery process in a secure environment free of impact, information leakage or intermediation.

Algorithms for NYSE Floor Brokers

The introduction of algorithms for use by New York Stock Exchange Floor Brokers is the next step in providing the most competitive landscape possible for floor brokers and their customers. Brokers will now have the ability to route all or part of a customer order to an external algo engine from their handheld order management device. Designed in cooperation with an NYSE approved provider and on-floor practitioners, these algorithms offer floor brokers the ability to provide their customers with additional execution capabilities in an environment that will offer a balanced combination of technology for fast, automated and anonymous order execution; and a physical marketplace for discovering block sized liquidity and improving prices.

Functionality
Speed
Sophistication
High Performance
Parity

Floor brokers will select their algorithmic strategy and trading parameters directly from their hand held device utilizing an enhanced front end interface specially designed and constructed for the floor broker community. The ease of functionality and speed of strategy delivery contrasts with the sophistication and competitive capability these algorithms offer. The result is a combination of an extremely robust, high-performance platform, modified for the unique NYSE trading floor environment, coupled with the insight and differential value benefits only an NYSE floor broker can offer. With the addition of parity, customers will benefit from a one of a kind algo capability in a one of a kind marketplace that blends high tech with high touch.

Key Features:

- Algos are engineered for NYSE point of sale
- Parity, the ability to match on every trade, is a competitive benefit of every algo strategy
- Algo strategies compete with and are benchmarked to the National Best Bid or Offer
- Full suite of percentage, price and adaptive strategies
- Enables brokers to utilize multiple execution and quoting strategies simultaneously combining Algos with d-quote, parity reserve, parity layering etc.
- Reg. NMS compliant
- Easily configurable and customizable.
- Low touch entry and modification functionality
- Infrastructure will support additional third-party algos
- Will not participate in the open or close