

Next Generation Model

> High-tech for fast, automated and anonymous order execution

> High-touch for discovering and improving prices, dampening volatility, adding liquidity and enhancing value

The **New York Stock Exchange** offers customers the most competitive trading experience, and significantly higher market quality than is currently available in the U.S. markets. The next-generation NYSE offers 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 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 is the Designated Market Maker (DMM), which replace the Specialist. DMM's:

- 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 are programmed into the NYSE Display Book but 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 are:

- Entitled to parity with incoming orders, instead of yielding to public orders on the NYSE Display Book.
- Permitted to integrate their floor-based trading operations into a related member firm, subject to strict information barriers. This gives the DMM better access to capital, risk-management tools and makes operations more cost effective.
- No longer the agent for orders on the Display Book

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

Non-Displayed Reserve Orders allow customers to post reserve interest, but with no requirement to display any portion of the order. Note that the DMM does not have access to Non-Displayed Reserve Orders

- The new reserve order participates in automatic order executions but is not protected in manual executions and does not participate in the open or close.

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

The NYSE has prepared 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.

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

Functionality
Speed
Sophistication
High Performance
Parity

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.

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