



## 'OPEN OUTCRY' THRIVES AT NYSE OPTIONS

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In a financial world increasingly dominated by screen-based electronic trading, the floor of the NYSE Amex Options exchange is proof that face-to-face trading is not only a key component of its business but it is thriving.

Located in the newly renovated Buttonwood Room at the New York Stock Exchange at 11 Wall Street in Lower Manhattan's Financial District, the options floor showed brisk activity during my visit on a recent Wednesday morning, just as it has so far this year. It wasn't elbow-to-elbow, shouting and gesticulating as you would see in the trading floors depicted in 1980s movies, but traders and their support staff were handling a consistent flow of business.



JAMES HYDE, NYSE  
OPTIONS

"On any given day, NYSE Amex and Arca options exchanges see 25-40% of total volume coming from participation in our open outcry environment," said James Hyde, Senior Director for NYSE Options.

One reason for this is the value that the floor provides. For example, an electronic trading platform might quote a call options contract \$2.20-\$2.80, i.e. a customer could buy the right to purchase 100 shares at a specified price by a specified date for \$2.80, or sell that same right for \$2.20. Clicking buy or sell could result in a slightly better executed price, but the brokers on the floor are able to probe the bid-ask gap to obtain the 'true' price for the best customer execution.

"The value that can be provided by floor firms is price discovery and liquidity beyond what they see on the screen, i.e. the true price," said Kirk Katzburg, managing partner at DLB Securities and a 21-year trading-floor veteran. "There's nobody punching a clock," said Peter Doyle at G&L Partners, Inc. "Everybody here knows they have to bring it every day and continue to provide value to the customer experience on the trading floor."

Data shows that the share of electronic options trading has plateaued, suggesting — as Mark Twain might say — that the demise of options floor trading has been greatly exaggerated. Electronic options trading in the U.S. ramped up from 47% in 2005 to 85% in 2010, but then the rate of increase leveled to 87% in 2012 and 89% in 2014, according to Aite Group.

Floor traders historically have left the trading of single-stock names with great displayed liquidity such as Google, Apple and Microsoft, and options such as the iShares MSCI Emerging Markets Index ETF (EEM), to the screens that can offer spreads as tight as one penny for standard lot sizes. The traders' *raison d'être* comes into play for very large or complex orders in less-liquid contracts, where experience, understanding of the market and relationships can make a big difference. "I am not surprised that we see a disproportionate share across NYSE Amex and NYSE Arca in products that truly benefit from the additional liquidity and complex order handling in open outcry," said Hyde.

For a very large options trade, just dropping the order onto a lit exchange almost assures inefficient execution. "When a trade is done right it's like a big tanker going down the Hudson River at night — you don't know it passed, but it went through," Doyle said. "You can't be hitting piers and pumps."

“Sometimes a market on the screen is so wide, it’s really just a suggestion,” Doyle continued. “There’s a lot of wiggle room and room for negotiation in there. That’s where the floor guys come in.”

In the options world, where one underlying stock may have dozens of associated options contracts, floor traders are there to respond to any and all requests for quotes from the most active names through the ones with little or no displayed liquidity. “Without outcry dialogue, one is left to display size and price across 2,530 names, which equals 643,880 strikes,” Hyde said. “Electronic liquidity providers cannot always give customers the quality and size that can be obtained on the floor.”

Added Hyde, “when a floor broker enters a crowd, he truly has the best of both worlds in his ability to avail himself of a displayed market on the 11 other exchanges that make up that National Best Bid and Offer (NBBO), while also working through additional liquidity being added in the open outcry floor markets.”

Amex floor broker firm De Paola Trading provides floor brokerage and electronic executions in all exchange-listed options. “We do well for our customers,” said Frank Maioli, an eight-year De Paola veteran. “We strive to get our customers the best price possible. If we have a dollar top to buy 5,000 options, we start tracking at 95 cents or thereabouts to try to get them some price improvement, at least on a partial execution. If it’s an illiquid name we put it on the tape as to not lose the current available size quoted.”

A \$1.20-\$1.80 displayed liquidity spread was recently encountered by De Paola Trading President Peter De Paola. “I felt it should have been tighter,” De Paola told Markets Media from his workstation on the Amex floor, in between phone calls.

“Someone would say, ‘let me sell at \$1.25 and think they would be doing better,’ but I knew that wasn’t the right price. So I walked my offer down to the \$1.40 level and the trade was subsequently consummated at that better price for the customer, i.e. \$1.40 vs \$1.25. Once the 100-lot traded at \$1.40, the displayed liquidity tightened to \$1.35 bid because the algos picked up the \$1.40 sale on the tape,” De Paola continued. “So then I was able to call somebody upstairs and say, ‘Hey, I just sold those at \$1.40, would you like to buy the rest?’ Bam! we got it done. The initial displayed liquidity was \$1.20-\$1.80, obviously not showing the “true” price I obtained for the customer of \$1.40. That’s the value.”

With the NYSE Arca Options trading floor in San Francisco and the new Buttonwood Room for the NYSE Amex Options floor in New York City, NYSE is the only exchange operator to support two distinct open outcry trading floors.

“Amex and Arca recently had nearly identical market shares of about 8.6%, good for #5 and #6 among the 12 U.S. options exchanges. And equally important, floor trading generated more than 26% of combined Amex and Arca volume last year.” said Steve Crutchfield, NYSE VP, Options Markets, ETPs and Bonds.

Reopened in January 2015 after a year-long remodel, the 7,000 square-foot Buttonwood Room is the market-hours home to more than 250 brokers, clerks, market makers, clearing-firm employees and support staff. The new venue is home to NYSE Amex Options, as well as U.S. cash equities traders, ICE Futures U.S. market participants, and the NYSE U.S. Cash Markets customer service desk.

NYSE Options hasn’t just spruced up a room for its floor traders. The unit of Intercontinental Exchange has reduced permit and port fees, and also implemented various discounts for open outcry trades. For example, in reaction to customer feedback, there has been significantly more competitive pricing in IWM, which is the security for the heavily traded iShares Russell 2000 ETF option.

“We continue to find ways to innovate and that includes supporting the trading floor across products, technology and access to order flow,” said Hyde.

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