



NYSE LiquidityQuoteSM

ADDING TO THE MARKET'S TRANSPARENCY

For investors, few items rank higher in priority than transparency of information. While the switch to decimals has benefited investors through tighter spreads and more easily understood stock prices, some shareholders, particularly large institutions, say “depth” of market became more difficult to discern. That’s because liquidity in each stock is now spread across 100 price points instead of 16 under the previous fractional pricing system.

To address this concern, the Exchange has launched NYSE LiquidityQuoteSM in a pilot encompassing the 28 listed stocks of the Dow Jones Industrial Average. The product—which will be extended to a broader universe of stocks—is among the Exchange’s initiatives to improve transparency and better communicate market depth in today’s decimal environment.

LiquidityQuote, or NYLQ,SM is a firm, two-sided, real-time quote that is intended to reflect where “size” exists in an environment of sometimes “thin” penny spreads. It reflects a stock’s natural liquidity by providing a single price quote representing the cumulative number of shares bid or offered on the limit-order book, in the trading “crowd” (floor brokers trading on behalf of customers) and by specialists as principal. Along with the NYSE best bid or offer (BBO), or “inside quote,” the specialist maintains this second quote and continuously disseminates it in real-time throughout the day. Investors can now view and execute against the inside quote or the LiquidityQuote at which larger quantities of stock are bid and offered.

“While the world might have been seeing a quote of \$50 offered for 500 shares, it previously was not able to see that tens of thousands of shares were being offered at \$50.02,” explains NYSE Vice President Ron Jordan. “This is the first time customers can see a firm, tradable quote beyond the best bid and offer.”

For example, a July 24 snapshot of **Exxon Mobil Corp. (XOM)** at 10:09 a.m. showed that the inside quote was \$35.88 for 2,000 shares bid and \$35.89 for 3,100 shares offered. Previously, this was the only quote available to investors. Now, investors can also see the NYSE LiquidityQuote of \$35.84 bid for 51,000 shares and \$35.92 offered for 80,300 shares:

JULY 24 SNAPSHOT OF EXXON MOBIL (XOM) AT 10:09 A.M.		
	Price (\$)	Size (00s of shares)
NYSE BBO (inside quote)	\$35.88—\$35.89	20 x 31
NYSE LiquidityQuote	\$35.84—\$35.92	510 x 803

“With decimals, meaningful liquidity became obscured by narrower quotes with much smaller depths,” explains NYSE Director Robert Fagenson, vice chairman of the management committee at Van der Moolen Specialists USA, a subsidiary of **Van der Moolen Holding N.V. (VDM)**. “We needed a way to show customers a better market picture. LiquidityQuote also is a firm quote that can be traded with by both a broker at the point of sale or electronically through the NYSE’s systems. So it empowers institutional clients to see and access liquidity with tremendous immediacy.”

A COMPLEMENT TO OPENBOOK

NYLQ complements NYSE OpenBookSM, a Network NYSE[®] product that gives investors a look at all the bid and offer volume at every price point on the limit-order book. But the NYSE auction is more than a book market. LiquidityQuote aggregates the volume at each of those price points and adds in the crowd and specialist interest, exposing a single point at which to access that depth.

“The Exchange is providing the tools to view where the real liquidity is,” says Kevin Cronin, senior vice president and head of domestic equity trading at AIM Capital Management. “This helps us understand the quote better and come to some conclusion about what further steps we need to take.”

For Cronin, looking at LiquidityQuote in conjunction with OpenBook “helps us to understand the interaction of the specialists’ interest, the crowd interest and the book interest. If there’s 5,000 shares on the book and 25,000 at the LiquidityQuote, then you can surmise that 20,000 is either the specialist, someone in the crowd, or a representation of both.”

In the Exxon Mobil example, while OpenBook was displaying all the volume on the book at multiple price points, as shown below, the

A JULY 24 SNAPSHOT OF NYSE OPENBOOK IN XOM AT 10:09 A.M. (BID SIDE)		
Cumulative Size (00s of shares)	Size (00s of shares)	Bid (\$)
20	20	35.88
78	58	35.87
123	45	35.86
134	11	35.85
166	32	35.84
168	2	35.83
179	11	35.82
205	26	35.81
231	26	35.80

NYLQ reflected the 16,600 shares bid at \$35.84 on the book plus an additional 34,400 shares of interest in the trading crowd and of the specialist.

BENEFITS DEFINED

At the end of July, LiquidityQuote was providing firm quotes averaging six cents away from the BBO with an average size of 23,000 shares, versus the BBO's average size of 3,000 shares. "For those stocks of the 28 in the pilot we trade, we're very interested in seeing what those quotes look like and closely paying attention to them," says Cronin.

Evidence suggests that the product is performing as intended. A snapshot of the market in **SBC Communications Inc. (SBC)** on July 24 at 10:03 a.m. showed that, at the BBO, 200 shares could be bought at \$23.82 and 100 shares sold at \$23.81. At the NYLQ, however, 50,000 could be bought for three cents more, and 50,300 shares could be sold for four cents less, than the BBO.

"We think LiquidityQuote is going to be a boon for our customers," says James Duryea, president of floor brokerage firm J.M. Duryea Inc. and an NYSE director. "It will entice them to keep orders flowing to the NYSE. Transparency and the ability to access liquidity is what it's all about."

TRADING AT THE NYLQ

LiquidityQuote, which is available through all major market-data vendors, is free for NYSE OpenBook subscribers. Orders placed at the LiquidityQuote interact with all available orders, allowing for the opportunity for price improvement, and are executed in accordance with NYSE auction-market rules. Investors can execute orders at the LiquidityQuote via SuperDot,[®] a broker, or NYSE Institutional XPress.[®]

LiquidityQuote is optimized when an XPress OrderSM condition exists, which is when a bid or offer (or both) with a minimum size of 15,000 shares has been posted for 15 seconds. When XPress Order conditions exist, LiquidityQuote automatically notifies users, who can then trade against the NYLQ by placing an XPress Order. Doing so provides greater assurance that the order will be executed in its entirety, since no one in the crowd is able to trade with the order on parity. XPress orders

can get a partial execution if not enough liquidity exists at the XPress quote. On average, XPress conditions exist in the LiquidityQuote stocks 57% of the trading day. For some stocks, such as **The Walt Disney Co. (DIS)**, XPress conditions exist 90% of the time. "The XPress Order type gives us the ability to quickly, anonymously and with good protection go in and access the liquidity that's displayed," Cronin says.

Richard Genna, head floor broker for **Goldman Sachs Group Inc. (GS)**, says both its upstairs traders, using Institutional XPress, and its floor brokers have had orders filled at the LiquidityQuote. "Size is made more visible as a result of LiquidityQuote," Genna says. "If you have size to buy or sell, and you want to get it done quickly, this enables you to access size more efficiently."

The addition of LiquidityQuote has also increased productivity on the NYSE trading floor. By automating the inside quote as part of NYLQ's launch, the Exchange has eliminated the majority of the 9 million keystrokes required to produce an average of 4.5 million quotes per day.

Because LiquidityQuote implements such a significant change in the market, the NYSE is taking great care to assure its introduction is comprehensive and smooth, assessing quality and market impact before expanding it to include more securities. "This includes not only internal analyses, but actively working with users, the specialist community and market-data vendors to ensure the product is as high

quality as possible," says Jordan. Adds Genna: "The Exchange has been very active in seeking suggestions and observations from those of us using the product."

Tom Harden, director of equity trading at Strong Capital Management, says he's looking forward to LiquidityQuote's expansion to more listed stocks. "It becomes much more of an option traders will consider in the tertiary and secondary names. We like the idea of seeing the quote and taking it if you're the first one there, and not having your order broken up. I believe this is an important step to true electronic access to the book and freer access to the Exchange."

For more information, visit www.nysedata.com/liquidity. □

