

**MEMO# 22512**

May 15, 2008

## **SEC Approves Expansion of NYSE Reserve Order Pilot Program to All Equity Securities**

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TO: EQUITY MARKETS ADVISORY COMMITTEE No. 21-08    RE: SEC APPROVES EXPANSION OF NYSE RESERVE ORDER PILOT PROGRAM TO ALL EQUITY SECURITIES

A proposed rule change by the New York Stock Exchange ("NYSE") to expand its Reserve Order pilot program, currently operating in 100 securities, to include all equity securities traded on the Exchange has become effective upon filing with the Securities and Exchange Commission. [\[1\]](#)

The NYSE recently introduced a new order type – the Reserve Order – allowing off-Floor participants the ability to enter reserve interest, or non-displayed liquidity, directly into NYSE's OpenBook system. [\[2\]](#) Specifically, the Reserve Order is a limit order for which a portion of the order is to be displayed and a portion of the order, at the same price, is in reserve. Market participants that choose to enter Reserve Orders must enter specified order information in relation to the price and size of the order and the amount to be displayed. The displayable portion of a Reserve Order will be available to the specialist on the Floor. [\[3\]](#) Both the displayable and the non-displayable portions are available for automatic execution against incoming contra-side orders, as well as manual executions.

Interest represented through Reserve Orders will trade according to Exchange rules governing priority and parity. The displayable portion of the Reserve Order interest will be executed first. Once all displayable interest is exhausted, any remainder of an incoming

order will be executed against any reserve interest at the Exchange best bid or offer. Reserve Orders will have the ability to automatically replenish the displayable amount of interest at the Exchange best bid or offer when trades reduce or exhaust such displayable interest; however, the Exchange proposes to allow customers to determine the specific amount to be included as displayable above a minimum requirement.

In the Release, the Exchange represents that the pilot program should be expanded to all equity securities because (1) there have been no systems problems associated with Reserve Orders and (2) Exchange customers continue to request the ability to send Reserve Orders in all securities traded on the NYSE. The Release also notes that expansion of the pilot program is not an approval of the program by the Commission. [4]

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#### **endnotes**

[1] See SEC Release No. 57792 (May 7, 2008), 73 FR 27601 (May 13, 2008) (“Release”). The Release may be found at: <http://www.sec.gov/rules/sro/nyse/2008/34-57792.pdf>.

[2] See SEC Release No. 57688 (April 18, 2008), 73 FR 22194 (April 24, 2008) (“April Release”) (containing a detailed description of Reserve Orders and their functionality).

[3] However, both the displayable and the non-displayable portion will be unavailable to the specialist's algorithm and therefore ineligible for price improvement by the specialist. Such interest will be made available to the specialist manually in certain situations, as explained in the April Release. Supra note 2.

[4] As originally proposed, the Reserve Order pilot program became immediately effective on April 24, 2008, for 100 Exchange-listed securities. It is scheduled to end no later than the earlier of September 30, 2008 or Commission approval of a proposed rule change to make the pilot program permanent for all securities.