

MEMO# 15522

January 8, 2003

NYSE PROPOSED RULE CHANGE RELATING TO THE DISSEMINATION OF LIQUIDITY QUOTATIONS

[15522] January 8, 2003 TO: EQUITY MARKETS ADVISORY COMMITTEE No. 1-03 RE: NYSE PROPOSED RULE CHANGE RELATING TO THE DISSEMINATION OF LIQUIDITY QUOTATIONS

The Securities and Exchange Commission has issued a notice of the filing of a proposed rule change filed by the New York Stock Exchange ("NYSE") (a copy of which is attached) relating to the dissemination of "liquidity quotations."¹ Comments on the proposed rule change must be received by the SEC no later than January 23, 2003. We have scheduled a conference call for Wednesday, January 15, at 4:15 pm Eastern to discuss the proposal and the Institute's comment letter. If you would like to participate on the call, please contact Monica Carter-Johnson by phone at 202-326-5823 or by e-mail at mcarter@ici.org by January 13. The proposed rule change would amend NYSE rules to permit the dissemination of a "liquidity bid" and a "liquidity offer" which would reflect aggregated trading interest at a specific price interval below the best bid or above the best offer. The specific price interval, as well as the minimum size of the liquidity bid or offer, would be established by the specialist in each security. It would not be mandatory to disseminate a separate liquidity quote. According to the Release, liquidity quotes would include orders on the specialist's book, trading interest of brokers in the trading crowd, and the specialist's dealer interest, at prices ranging from the best bid (offer) down to the liquidity bid (up to the liquidity offer). All disseminated liquidity bids and liquidity offers also would be deemed to be "firm quotations" that are available for interaction with trading interest. Orders seeking to trade against liquidity quotes would be executed in accordance with NYSE auction procedures. The proposed rule change provides that a liquidity bid or offer, regardless of size, will be XPress eligible if it has been published for at least 15 seconds. The Release states that the NYSE expects that the size of liquidity bids and offers will be of a size that represents significant interest for a stock and will, in many stocks, be greater than 15,000 shares (the current minimum size of an XPress quote). However, where the share size of the liquidity bid or offer does not equal 15,000 shares, the Release states that the NYSE believes that institutional interest in 1 Securities Exchange Act Release No. 47091 (December 23, 2002), 68 FR 133 (January 2, 2003) ("Release").² trading at the liquidity price may still be present, and that utilizing the XPress trading protocol will be an appropriate way for this interest to access such displayed greater liquidity. The proposed rule change also would provide that an XPress order may be priced at either the best bid or offer price, or at the liquidity bid or offer price, if XPress eligible. An XPress order to buy priced at the liquidity offer price will be either executed at that price, or a price that will allow an XPress order to be filled without trading through orders on the book. Specialists will, however, seek price improvement for XPress orders in accordance with the NYSE's

procedures for the execution of XPress orders. Ari Burstein Associate Counsel Attachment
(in .pdf format)

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