

## CHAPTER TWO

The NYSE has long been the leader in providing the best prices and lowest trading costs. Its unique market model allows it to accomplish this. The NYSE blends the best aspects of electronic trading and traditional, open-outcry, auction-market trading. Buyers and sellers meet directly in a fair, open and orderly market to compete for the best possible price through the interplay of supply and demand. At the NYSE, investors have the broadest choice of trade-execution preferences with the opportunity for price improvement. As the NYSE market continues to evolve, The NYSE Hybrid Market<sup>SM</sup> initiative will build on these attributes by broadening customers' ability to trade quickly and anonymously.

To be able to trade securities on the Trading Floor, an Exchange-issued trading license is required. Only qualified and approved NYSE broker-dealer entities may acquire and hold trading licenses. Most of those holders are either floor brokers or specialists:

- **Floor Brokers.** Brokers represent public orders to buy or sell shares and work to get their customers the best price. Brokers participate both in person and electronically on the Trading Floor and have advanced tools to assist them in handling trades on behalf of their clients. Two main types of floor brokers work on the Trading Floor: house brokers and independent brokers. House brokers are employed by brokerage firms that hold accounts for public investors. These market professionals buy and sell securities as an agent for their customers. The majority of independent brokers are "direct access" brokers who deal with institutional investors at low commission rates.
- **Specialists.** Each stock listed on the NYSE is allocated to a specialist, a market professional who acts as the contact point between brokers with orders to buy shares and brokers with orders to sell shares.

### THE HYBRID MARKET



  
*A floor broker  
receives an order  
on her handheld  
computer.*

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Specialists act as auctioneers in the specific stocks they are designated to trade at a designated location, called a trading post. All buying and selling of a given stock occurs at that location. Specialists use enhanced technology to bring buyers and sellers together, improve prices, and serve as a point of accountability for the smooth functioning of the market. The Hybrid Market automates much of what specialists do, helping them become much more efficient.

## Marketplace Technology

The NYSE's highly sophisticated and robust trading platform includes a broad range of technology tools that help specialists and floor brokers provide value to customers. The NYSE employs advanced communications and computing technologies to deliver fast, efficient, reliable and cost-effective trade executions.

The Exchange has the capacity to trade up to 10 billion shares per day. (The record for shares traded in one day was 3.1 billion on June 24, 2005.) To keep up with the tremendous growth in trading volumes, the NYSE constantly upgrades its technology, which includes developing new electronic workstations for specialists with flat-screen monitors, an order management system for brokers, wireless handheld terminals, a cellular telephone network on the Trading Floor and much more.

At the NYSE, 100% of orders are electronically delivered directly to trading posts, booths, or handheld computers on the Floor in the following ways:

- **SuperDOT®** (Designated Order Turnaround System): More than 95% of orders to buy or sell stock reach the specialist's workstation directly at the trading post through this electronic order-routing system. After the order has been executed in the Hybrid market, a report of execution is returned directly to the member firm office over the same electronic circuit that brought the order to the Trading Floor. SuperDOT® handles most of the smaller orders. It is the larger orders that are represented personally by floor brokers via the Broker Booth Support System (BBSS®), NYSE e-Broker<sup>SM</sup> and other systems.

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## How a Stock is Bought and Sold

- 1 Tom Smith of Sarasota, Florida decides to invest in the stock market.
- 1a Diane Whitford of Hartford, Connecticut decides to sell 300 shares of XYZ Corp. (XYZ) stock to help pay for a new car.
- 2 Tom has been thinking of investing in the XYZ Corp. He calls his broker, who is a member of the New York Stock Exchange, to get a quote on XYZ; that is, to find out the highest bid to buy and the lowest offer to sell.
- 2a Diane checks nyse.com to find out what price XYZ is trading at by typing in the company's ticker symbol, XYZ.
- 3 Tom's broker and Diane find out the current quote and price for XYZ from an electronic data system that continually updates information directly from the Floor of the NYSE.
- 4 Taking into account what he already knows about XYZ — and after a discussion with his broker — Tom instructs his broker to purchase 300 shares of XYZ at the current market price.
- 4a Diane logs into her online brokerage account, which is linked to a brokerage firm that is a member of the New York Stock Exchange, and places an order to sell her 300 shares at the current market price.
- 5 Both orders are sent electronically to the NYSE Trading Floor either via the SuperDOT® System to the specialist's workstation.
- 6 The customer can either use the auction market with the specialist or, to obtain an electronic execution, use NYSE Direct+.
- 7 At the specialist workstation both orders are represented as auction market orders in order to have the opportunity for price improvement. The specialist who handles XYZ makes sure the transactions are executed fairly and in an orderly manner.
- 8 After the transaction is executed, the specialist's workstation sends notice to the firms originating the orders and to the consolidated tape so that a written record is made of every transaction.
- 9 The transaction is reported by computer and appears on the consolidated tape displays across the country and around the world.
- 10 The transaction is processed electronically, crediting Tom's brokerage firm and debiting the account of Diane's brokerage firm. Tom's broker calls him and tells him at what price he bought 300 shares of XYZ. In a couple of days, Tom receives a written confirmation in the mail. Diane receives confirmation from her brokerage firm electronically on her computer within seconds. These confirmations describe the trade, its terms and conditions, and the exact amount to be paid or received.
- 11 Tom settles his account within three business days after the transaction by submitting payment to his brokerage firm for the 300 shares of XYZ, plus any applicable commissions.
- 11a Diane's trade is also settled in three business days. Her account will be credited with the proceeds of the sale of stock, minus any applicable commissions.

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- **BBSS®**: This highly sophisticated computer system is used to receive orders on the Trading Floor. The system is connected to the specialist's post and the broker's handheld computer.
- **NYSE e-Broker®**: This wireless, handheld tool enables floor brokers to submit and manage quotes and orders, track executions and speed the flow of information between customers and the point of sale.
- **NYSE Direct+®**: This high-speed electronic connection between NYSE member firms and the Exchange enables immediate electronic execution of customer orders.

### KEY TERMS

**Auction Market**: Floor brokers and specialists interacting with quotes and orders on the floor of the New York Stock Exchange.

**Bid**: The highest price anyone wants to pay for a security at a given time.

**Broker**: An agent who handles the public's orders to buy and sell securities, commodities, or other property. For this service, a commission is charged.

**Broker Booth Support System® (BBSS®)**: A state-of-the-art order-management system designed exclusively for NYSE members, which enables member firms to quickly and efficiently process and manage their orders and selectively route orders via **SuperDOT®** directly to either the trading post, the broker's handheld computer, or the booths on the NYSE Trading Floor.

**Commission**: The broker's basic fee for purchasing or selling securities or commodities as an agent.

**Floor Brokers**: The largest single membership group of the NYSE, consisting of house brokers and independent brokers.

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**House Broker:** An agent, employed by a brokerage house, who executes the public's order for the purchase or sale of securities or commodities.

**Hybrid Market:** The NYSE Hybrid Market<sup>SM</sup> is the NYSE's new market model currently being phased in, integrating into one venue the best aspects of both the auction market and automated trading while providing customers with the broadest choice of executing trades.

**Independent Broker:** Member on the Floor of the NYSE who executes orders for more than one brokerage house. Many independent brokers are "direct access" brokers who deal with the institutional public.

**Initial Public Offering (IPO):** A corporation's first offering of stock to the public.

**Liquidity:** (1) How easily one's assets can be converted back into cash; (2) The ability of the market in a particular security to absorb a reasonable amount of buying or selling at reasonable price changes. Liquidity is one of the most important characteristics of a good market.

**Listed Companies:** Companies whose shares of stock trade on a securities market.

**NYSE Hybrid Market<sup>SM</sup>:** The NYSE Hybrid Market is the NYSE's new market model, integrating into one venue the best aspects of both the auction market and automated trading while providing customers with the broadest choice of trade execution preferences.

**Offer:** The lowest price anyone will take to sell a security at a given time.

**Specialist:** A member of the NYSE who is responsible for maintaining a fair and orderly market in the stocks they are allocated. At all times, specialists must put their customers' interests above their own.

**Stock:** A "share" represents partial ownership in a company. Investors who purchase stock have voting rights at the company's annual stockholders' meeting.

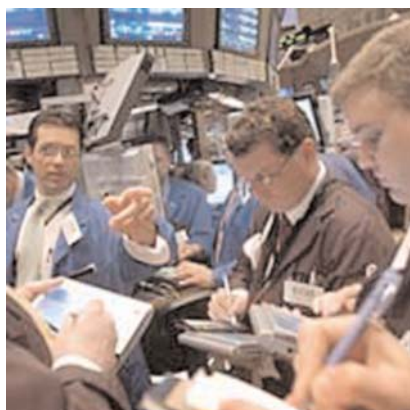
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**SuperDOT®:** The electronic order-routing system through which NYSE member firms transmit market and limit orders directly to the trading post where the security is traded or to the member firm's booth. After the order has been completed a report of execution is returned directly to the member firm office over the same electronic circuit that brought the order to the Trading Floor.

**Trading Floor:** The 52,000 square feet in five rooms at the New York Stock Exchange where stocks and other products are bought and sold.

**Trading Posts:** The 20 horseshoe-shaped counters staffed by specialists and clerks on the Trading Floor of the NYSE where stocks are bought and sold. Each trading post is responsible for over 100 stocks.

*A specialist  
and brokers at  
a post on the  
Trading Floor*



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