

8. NYSE I: ORGANIZATION AND BASIC PROCEDURES

8.1 Overview

The NYSE is a hybrid market. It has:

- ▶ floor traders (like a futures pit)
- ▶ an electronic limit order book (like Euronext)
- ▶ a designated dealer (the specialist) to maintain liquidity and otherwise coordinate trading.

This mix is the outcome of political, technological and economic forces over the last 200 years.

The NYSE was first a floor market (loosely resembling the futures pits).

Many of the trading rules reflect the “floor” aspect of the market.

The NYSE next evolved strong central dealers (late 1800’s)

The specialists, in the sense of a trader who specializes in a particular stock.

Beginning in the 1980’s, electronic order entry has come to play an increasing role. The exchange has always permitted limit orders, but the book has become more important over time.

The basic reading for this material is the NYSE Floor Official Manual, abbreviated FOM.

8.2 Activities

What does the NYSE do?

Trading and trading services.

The NYSE charges (directly and indirectly) for trades that occur and for software supplied to its members.

Listing

To be listed on the NYSE, a corporation must meet/maintain certain financial standards and pay listing fees.

An NYSE-listing is a certification that enhances a firm's credibility.

Information

The NYSE is (indirectly) an information vendor.

Regulation

The NYSE monitors and regulates trading activities of its members.

Through the listing relationship and the listing standards, it can affect corporate governance and behavior.

Sources of revenue

For the year ended December 31,	2002
Revenues:	
Listing fees	\$ 286,071
Data processing fees	224,575
Market data fees	168,844
Trading fees	152,806
Regulatory fees	120,813
Facility and equipment fees	52,575
Membership fees	12,816
Investment and other income	47,359
	1,065,859

The NYSE does not...

The NYSE does not trade.

It does not take positions in any stock.

NYSE employees are not traders or members.

The members are not employees of the NYSE.

All members trade on behalf of their own or their customer's accounts.

This is true even for members who are very closely identified with the NYSE (like the specialists).

8.3 Organization and governance

The NYSE is a "mutual" organization, a not-for-profit corporation owned by its members.

A membership is a "seat" = trading privileges + ownership rights.

There are 1,366 seats. Seats are transferred by sale. They may also be leased.

A regular seat was sold on the New York Stock Exchange on Monday, March 29, 2004 for \$1,510,000; price up \$10,000 from the previous regular seat sale of \$1,500,000 on March 12, 2004.

After the sale, seats were: bid \$1,505,000; offer \$1,800,000

The NYSE recently considered de-mutualization (conversion to for-profit form with shareholders), but decided against it.

Governed by a board of directors and various committees, which generally have public representation.

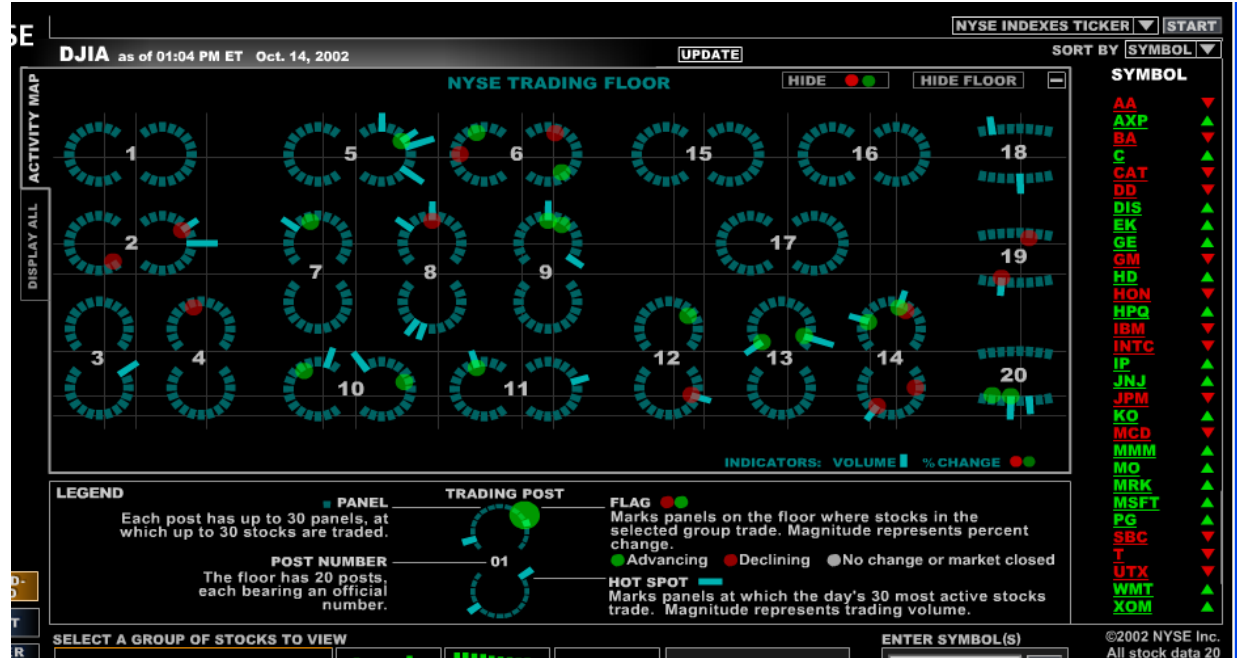
In practice, the NYSE represents a balance of diverse powerful constituencies.

8.4 Physical layout of the floor

Trading in a particular stock takes place at a particular post.

Posts are arranged around horse-shoe shaped trading booths.

[Trading] booths are arranged around the trading floor.

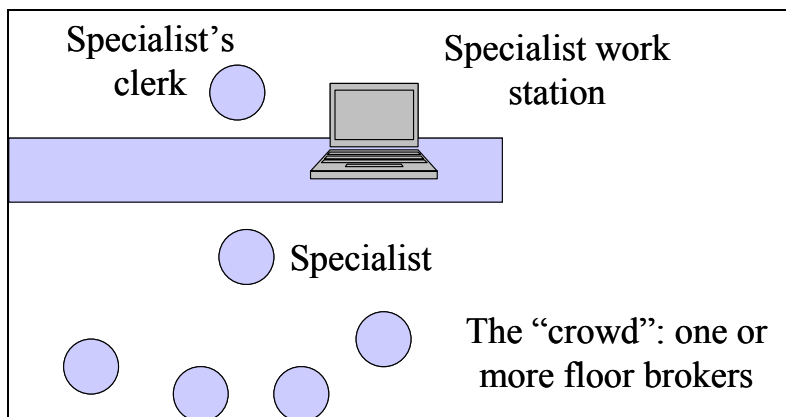


Above: a map of the floor from the NYSE's [marketrac](http://www.nyse.com/markettrac) web site.

Not shown: Broker booths are arranged around the perimeter of the floor.

A broker (e.g., Merrill) will have one or more broker booths.

Configuration of the post



The specialist work station (Display Book) contains the limit order book.

Most orders are delivered electronically to the work station.

The crowd comprises floor brokers representing customer orders and (less often) their own orders.

The crowd is similar to the crowd in a futures pit.

One broker has a unique role – the specialist.

The specialist's key function is to provide liquidity when no one else is willing to do so.

In this respect, the specialist is acting as a dealer.

8.5 Floor (crowd) trading procedures

The NYSE was first a floor market; many of its basic procedures reflect this heritage.

The crowd is similar to traders in futures pits in that they (mostly) bid or offer orally. BUT

In a futures pit, almost any bilateral trade is permitted.

On the NYSE floor, there are more stringent rules for who gets to trade and how.

In the crowd are members (brokers, seat-holders) who are usually representing customer orders.

House brokers are employees of the major brokerage firms.

Independent brokers

In the past, independents used to handle orders given to them by house brokers (who had more business than they could handle).

Today, independents cultivate relationships directly with customers (major “buy side” institutions, pension and mutual funds).

Can brokers trade for their own accounts? In general, no, but there are exceptions.

8.6 Floor procedures: priority, parity and precedence

The rules of priority, parity and precedence regularize trading interactions in a crowd. (Floor Official Manual, Ch. 5)

Price priority is absolute

A bid of 100 has priority over a bid of 99.

A trade cannot take place at 99 without the 100-bidder getting his/her stock.

(In futures pits, price priority is also observed.)

Time priority is not absolute

The first bid or offer at a price gets the first execution.

When a trade takes place at a price, all orders at that price are USUALLY considered “cleared” and must be reentered. They are considered to be reentered simultaneously and therefore “on parity”

Example:

Time	
11:00	Trade at 50.05
11:01	Floor broker Amy bids 50 for 1,000 sh.
11:02	Bruce bids 50 for 2,000 sh.
11:03	Cathy bids 50 for 1,000 sh.
11:04	<p>Dave arrives offering for sale 1,000 sh at 50.</p> <p>Amy gets 1,000 shares at 50 (she was the first bidder).</p> <p>This clears Bruce's and Cathy's bids. When they reenter them, they are considered to be on parity.</p>
11:06	<p>Elaine arrives offering 1,000 sh at 50.</p> <p>Bruce and Cathy are on parity: they will split or 'match' for the 1,000 shares.</p>
	<p>Note (from the NYSE Floor Official Manual):</p> <p>“There is a single EXCEPTION to the principle that every bid clears the Floor. Suppose there are several bids on the Floor at a best price – one having priority. Then an offer is made at that price for more stock than the bidder is asking for. The bid with priority gets its stock, but that execution alone does not clear the Floor. Instead, the balance of the offer is distributed to other bidders as though no sale had taken place.”</p>
If:	
11:04	<p>Dave arrives offering 2,000 sh. at 50.</p> <p>Amy gets 1,000 and Bruce gets 1,000.</p> <p>Cathy doesn't get anything until Elaine shows up.</p>

Precedence

When bids are on parity, (size) precedence comes into play.

Example:

Suppose that at a given price, the bids are:

Alan (500 shares)

Barbara (300)

Charlie (100)

Diane (600);

Ed (800);

Felecia (100)

Greg offers 800 shares at the price: Ed gets the stock (being the only bidder meeting Greg's size)

Greg offers 500: Alan, Diane and Ed either split the order or "match".

8.7 The specialist

(Floor Official Manual, Ch. 2)

For any particular stock, we can't assume that there will always be a crowd, bidding and offering. To guarantee continuous liquidity, it helps to have a dealer.

The specialist is the designated dealer for a stock.

The specialist is physically present at the stock's post.

There is one specialist per stock, but a specialist will handle multiple stocks.

Historically this has not always been true. There have been multiple specialists (and multiple limit order books).

The specialist is broadly responsible for "maintaining a fair and orderly market"

Main obligation: making a market (bidding and asking)

The specialist system arose in the late 19th century when some members decided to concentrate in particular issues, and

(Apocryphal) One member broke his leg and set up a fixed post.

Specialists are not employees of the NYSE.

Until recently, they were organized as small private partnerships. Presently, specialist units have merged into larger units.

There are now seven specialist units

One has gone public (LaBranche)

Other units have been purchased by larger firms (Spear, Leeds, Kellogg by Goldman)

Who gets to be a specialist?

Specialist rights to trade existing stocks are mostly inherited.

Specialist assignments to new listings are contested.

Affirmative obligations

a. Providing a narrow bid and ask

b. Maintaining price continuity (avoiding large price jumps) in transaction prices. Example:

XYZ is 50.10 bid, offered at 50.20 (both from the specialist); last trade at 50.20. The book is empty.

Sudden news release: negative earnings surprise. Market sell orders arrive.

The specialist cannot simply start filling these orders at (say) 45.

He must establish a sequence of transactions that bridge the gap, e.g., 50.10, 50.00, 49.90, etc.

Negative obligations (trading restrictions)

- a. *Must yield to public customers*
- b. *Discouraged from trading in a destabilizing fashion (buying at the offer or selling on the bid)*

8.8 The limit order book at the NYSE

Historically, there used to be multiple books for each stock. Currently, there is one book.

The book is maintained by the specialist's clerk in strict price/time priority.

Most limit orders arrive electronically via a computer system known as SuperDOT.

The "DOT" in SuperDOT stands for "designated order turnaround". The original DOT system was an order transmission facility for small market orders. There was a parallel system for limit orders. The two were merged into SuperDOT.

Another acronym: CMS (the common message switch) is a messaging system that functions as the main point of contact between everything outside the Exchange and the floor. Its present capacity is in excess of 5,000 messages per second (NYSE Fact Book).

Who sees the book?

Historically, the specialist was prohibited from disclosing the contents of the book.

Rationale: the specialist is agent for these orders. An agent shouldn't disclose customer intentions.

In 1990's, the rule became: the specialist must disclose the book to any floor broker who asks to see it.

Rationale: Most floor brokers are representing institutional interests (large blocks). If they can see the book, they will be able to give institutional customers a better indication of prices for large sizes.

In January, 2002, the Exchange released NYSE OpenBook™

This gives off-floor traders access to the book in real time (like the Island screen).

Summary

We've now described the three key components of trading: the book, the crowd and the specialist.

We'll next consider how they all interact.

8.9 Market orders

Recall: a market order demands execution as soon as possible.

In a floor crowd, a broker with a market sell order would try to fill it by offering.

“Offering 500 shares at \$25.10”

If there were no buyers, he'd drop the offer price.

“Offering 500 shares at \$25.05”

Etc., until someone bought. This is a (Dutch) descending price auction: the broker is effectively auctioning off the order.

Although a floor broker *could* handle a market order (and in the past usually did), virtually all market orders are delivered to the specialist (via the SuperDOT system).

The specialist then auctions the market order, acting as agent for the order.

Limit orders revisited

The specialist is also the agent for the limit order book.

When trading involves the crowd, the specialist represents orders on the book in the crowd.

If a trade occurs that infringes on (trades through) a limit order, the specialist protests on behalf of the order.

Suppose the book has a bid of 100, and two floor brokers negotiate a trade at 99.

The limit order has been “traded-through”:
Someone bought at 99 when there was an order to buy at a higher price.

Specialist to selling broker: “You owe the book a fill at 100.”

8.10 The book and the crowd

Within the limit order book, orders are handled in price/time priority (like Island)

Conceptually, the book is treated as a single member of the crowd.

Remember: Beyond the first trade at a price, there is no time priority in the crowd.

Implication:

A floor broker representing a customer who has just arrived at the post might trade ahead of a limit order at the same price that arrived hours earlier.

NYSE trading does not follow strict time priority

Example

Suppose at 11:05, the book contains these buy orders at a price of 100:

Order	Customer	Submitted
500 shares	Amanda	11:01
600 shares	Brian	11:02
400 shares	Crystal	11:03

11:10 Floor broker Dave arrives and bids 100 for 1,000 shares.

If an order arrives to sell 100 shares at 100, Amanda gets 100 shares.

But thereafter, Dave is on parity with the book. If a new market sell order arrives, Dave and Amanda will match (split). Dave will be at parity with Brian and ahead of Crystal (both of whom arrived earlier).

Note: the specialist may combine orders on the book to increase precedence. If an order came in to sell 1500 shares, all could be sold to the book.

The ability to achieve parity with the book is one “service” that a floor broker provides.

8.11 Customer and proprietary orders

Members must yield to nonmember orders at the same price.

Example:

The specialist is bidding 50 for 1,000 shares.

A public limit order arrives to buy limit 50 for 500 shares.

If a market order arrives to sell 600 shares and if the shares are sold at 50, the public customer gets 500 shares (the specialist gets 100).

The public order must be filled before the specialist buys anything.

The failure to do this is one of the main allegations in the current SEC settlement with five specialist firms. Bear Wagner Specialists, Fleet Specialist, LaBranche, Spear, Leeds & Kellogg Specialists, and Van der Moolen Specialists have settled for a total of \$241 Million. [SEC press release](#).

The limit order book competes with the specialist.

But public priority holds only at the same price.

The specialist could buy all 600 shares at \$50.01.

This is sometimes called “pennying”.

A member of the crowd might also outbid the book when the market order arrives.

Price improvement

Situations like this are common:

100 bid / 100.10 offered

A market buy order is filled at 100.05.

This is called “price improvement”: the submitter of the market buy order bought at a price lower than the prevailing and published ask or offer price.

In other situations a market order seller can get a price higher than the published bid.

Wars among exchanges are fought over price improvement statistics.

This would not occur in an electronic limit order book market. You can only have trades at the bid/offer.

Why does price improvement occur? Some possibilities...

- ▶ When market buy and sell orders are pending simultaneously, the specialist will usually cross them at the average of the bid and ask, or (in a minimum tick market) at the bid or the ask.

The failure to do this is one of the main allegations in the current SEC settlement with five specialist firms. Bear Wagner Specialists, Fleet Specialist, LaBranche, Spear, Leeds & Kellogg Specialists, and Van der Moolen Specialists have settled for a total of \$241 Million. [SEC press release](#).

- ▶ A member in the crowd (or the specialist) betters the public quote.

Example

The book has customer orders bidding 100 for 5,000 shares and offering 4,000 shares at 100.10. The book has time priority.

A market order to sell 100 shares arrives.

A specialist or floor broker who wants to buy can't buy at 100.

The specialist must yield to the customer orders on the book.

The floor broker doesn't have time priority.

Either can buy at 100.01 (thereby giving the seller a better price than exists on the book.)

Puzzle: If the specialist/floor broker was willing to buy at 100.01, why didn't he simply put out a bid 100.01.

Politics of price improvement

Price improvement is widely regarded as a good thing.

It allows retail market orders to execute at prices that better prevailing quotes.

The mechanism that provides price improvement exists on many markets besides the NYSE

Exchanges have long used price improvement statistics in advertising.

The SEC now requires markets to compute and report price improvement.

BUT

Price improvement is not a good thing for limit orders (retail or otherwise)

8.12 Why do institutions use floor brokers to work their orders?

Due to parity and precedence rules, floor brokers may trade before limit orders that were previously on the book.

The specialist and the crowd can see the size of incoming market orders. This allows them to bid or offer more aggressively on small orders.

A floor broker can revise an order more quickly than an off-floor submitter of a limit order.

A floor broker can see the contents of the limit order book.

A floor broker will be aware of potential counterparties following strategies similar to his/her own.

Are these advantages fair / desirable / worth incorporating in electronic systems?

8.13 Direct+

Direct+ is a system for automatically executing certain electronically-submitted orders.

Currently:

They are executed automatically at the NYSE bid or offer.

They are executed against “the interest reflected in the public quotation”

This may include limit orders in the book, floor traders, and the specialist.

Current limitations:

Only limit orders up to 1,099 shares are eligible.

Direct+ is not operative

when the specialist sets the size of the quote to 100 shares.

when the specialist has “gapped” the spread (i.e., set the bid and ask so that the spread is much wider than usual).

The intent of allowing the specialist to gap the spread is to allow him to signal that there are unusual market conditions, such as a large block trade about to be crossed.

In practice, these mechanisms provided a way for the specialist to effectively turn off the Direct+ system, thereby eliminating his obligation to execute the orders. (See EXCHANGE HEARING PANEL DECISION 02-164, August 15, 2002)

auto ex orders for the same customer may be entered at time intervals of no less than 30 seconds between entry of each such order.

This will apply on a per stock basis

The NYSE is considering modifying the system to rescind the size and 30-second limitations.

(The details have yet to be announced.)

9. NYSE II: SPECIAL TRADES AND PROCEDURES

9.1 Introduction

In this section we examine features of NYSE trading that are in one way or another distinctive or unusual. The material is both specific and general.

It is specific in that we'll cover exactly how these trades or situations are handled on the NYSE.

It is general in that the trades or situations arise in other markets as well. They arise from trading needs that go beyond the NYSE.

9.2 Short sales and the “uptick” rule

(Floor Official Manual, Ch. 2, section VI)

In a short sale, a customer borrows stock from a broker and immediately sells it.

The customer later repurchases the stock (hopefully at a lower price) and delivers it back to the lender.

Notes:

The customer borrows shares of stock and must return shares of stock. The “loan” is denominated in shares, not dollars.

Short-selling is a marginable transaction. Cash or near-cash (like T-bills) must be posted with the broker.

The shares lent by the broker are usually shares owned by other customers (in margin accounts) but held in the broker's custody.

There is a market in shares that are borrowable for purposes of short selling.

The uptick-rule

An uptick is a price that is higher than price of the previous trade.

A zero-uptick occurs when the price is the same as that of the previous trade (or sequence of trades), but where the first trade of the preceding sequence occurred on an uptick.

NYSE rule: a stock cannot be sold short except on an uptick (or zero-uptick).

Examples

Sequence 52 51 [Short sale at 52] okay

Sequence 52 51 52 52 52 [Short sale at 52] okay

Sequence 53 [Short sale at 52] prohibited

Sequence 53 52 52 52 [Short sale at 52]
prohibited

Purpose: prevention of “bear raids”.

In a bear raid, downward price momentum is established by manipulators who sell the stock short at progressively lower prices. When the trend has been established and momentum traders have been drawn in, manipulators repurchase the stock (at low prices).

The uptick rule is formalized in US securities law (See section 10a-1 of the 1934 Act).

9.3 Block crossing procedures

(Floor Official Manual, Ch. 6)

A block trade is defined as any trade of 10,000 shares or more.

The demand for block trades comes from institutions (mutual funds, pension funds, hedge funds, etc.)

The typical block trade of bygone days

In the past, an institution would contact a broker’s “upstairs” equity desk. The equity desk would try to find a counterparty, or take part or all of the other side of the trade as principal.

This might have given rise to something like the following situation.

An “upstairs” broker has negotiated a trade. Fidelity will sell 100,000 shares at 100. The buyer is GM pension fund.

Problem: “prearranged” trades are prohibited. (Why?)

Solution: the broker must make both sides of the market, and give the crowd a chance to participate.

Broker: “100 bid for 100,000; 100,000 offered at 100 1/16. . . . Sold.”

The first part makes the market

The last part (“Sold”) confirms the transaction

The middle part (a short wait) allows another broker an opportunity to take some or all of either side.

Compare CME Rule 533.

Modern practices

The needs of institutional investors haven’t changed, but their needs are typically handled in a different fashion.

The NYSE adopted a clean cross rule.

More upstairs desks are “stopping” the order and working it on an agency basis, feeding the order to the market a little bit at a time.

Clean Cross Rules

The possibility of a broken cross was causing many brokers to avoid the NYSE in favor of some other exchange where the absence of a crowd meant there was little chance of a broken cross.

As a competitive measure, the NYSE adopted the clean-cross rule (72), a block cross at or within the quotes can’t be broken up except by someone offering price improvement.

Example: The market is 100 bid, offered at 100.10. A broker wishes to cross a block of 25,000 shares at the bid.

Member X can’t say: “Hey, I’d like to buy some of that at 100.”

Member X *can* say, “I’ll buy 5,000 shares at 100.02.”

“Stopping” an order

When an upstairs broker stops an order, she agrees to represent the order on an agency basis and also guarantee a price for the order.

Example: ABC is 20 bid for 500 shares; 400 shares offered at 20.10.

XYZ pension fund calls the upstairs desk and wants to buy 10,000 shares.

The upstairs desk might stop the order at 20.25 (guaranteeing this as the most the customer will pay).

The desk then goes into the market (the NYSE and all other available venues) trying to buy the stock.

Notes:

Stopping the order does not constitute a trade. It doesn't have to be reported to the tape. (The smaller component trades will be reported to the tape as they occur.)

Stopping should not be confused with other usages of the term “stop” in trading, like “stop loss” order, “stop limit” order, etc.

9.4 Program trades

Introduction

In the formal NYSE rules, a program trade is a large trade (total value of \$1 Million or more) involving multiple stocks (a “basket” of at least 15).

“Program” has connotations of “automated”, “algorithmic” and/or “computer generated”. In some cases, these connotations are accurate:

Index arbitrage strategies involve buying a stock index security (such as a futures contract) and selling the stocks that comprise the index (or the reverse). The intent is to capture profits from minor relative mispricings.

Portfolio insurance strategies try to establish a floor for how far the value of a portfolio can drop. The intent is to replicate a “protective put” strategy by dynamic hedging. This generally involves selling a precisely calibrated amount of stock when the value

of the portfolio drops and buying a precisely calibrated amount of stock when the value of the portfolio rises.

Program trades are still used to implement these strategies. But they have many other uses besides.

Early History

Program trading initially became prominent in the 1980's. Some of the factors contributing to this rise were:

- ▶ The listing of the first stock index futures contract (the S&P 500 contract on the Merc in 1982).
- ▶ Growing awareness among institutional fund managers of the hedging and speculative strategies that could be implemented with options created by dynamic replication.

For various legal reasons, many managed funds couldn't hold put and call options directly. Dynamic replication gave them an indirect alternative.

- ▶ Automated order entry. In 1984 the NYSE introduced SuperDOT 250. Prior to this, a basket trade would have required one phone call for each stock.

The crash of 1987

On Monday, October 19, 1987, the S&P 500 index dropped by 20.5%. The market partially rebounded on Tuesday.

Initially, many observers blamed program trading for the crash. The following picture from Kleidon and Whaley (1992) shows why.

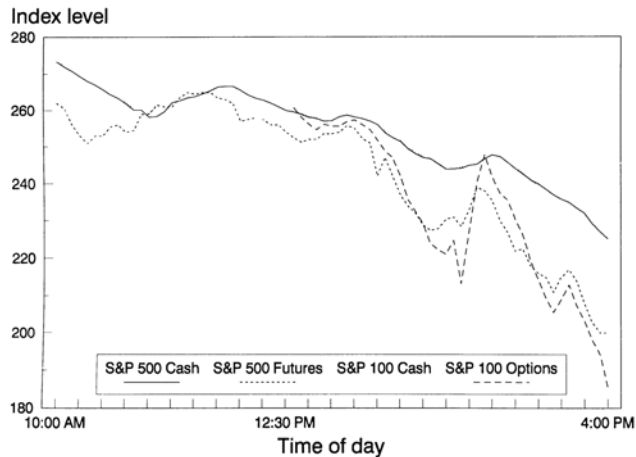


Figure 2. Index levels at five-minute intervals during the trading day, October 19, 1987. The figure contains the levels of the S&P 500 cash index and the December 1987 S&P 500 futures contract. The S&P 100 cash index level is normalized to the S&P 500 cash index level at 10:00 A.M. (EST). The implied S&P 100 index level is computed on the basis of November 1987 S&P 100 index option price quotes during each five-minute interval, and is normalized using the same proportionate adjustment as is used for the S&P 100 cash index.

The decline in the index futures contract (and another derivate, the index option) clearly precedes the decline in the cash index.

The pricing gap that opened between the futures contract and cash created motivated index arbitrage that involved selling the “relatively overpriced” security – the stock.

Subsequent investigations largely exonerated program trading as the cause, but nevertheless recommended special procedures to monitor and handle program trades.

Trading collars

Once legacy of the 1987 crash is “trading collars” (see Rule 80A, FOM, Ch. 8, Section III)

When the Dow Jones Industrial Average moves more than 2% from its previous close, all index arbitrage orders in S&P 500 stocks must be stabilizing: sell-plus or buy-minus.

Sell-plus and buy-minus orders are said to be “tick sensitive”.

A sell-plus order works exactly like the short-sale uptick rule: the sale can only be done on an uptick or zero-uptick.

A buy-minus order is a purchase that can only be effected on a downtick or zero-downtick.

In recent years, Rule 80A triggers have occurred about fifty times per year.

9.5 Trading halts and circuit breakers

(FOM, Ch. 8)

Often in volatile markets, agents stop trading of their own accord.

In both the stock and bond markets, trading typically slows immediately prior to government news releases.

At other times, trading *itself* is sometimes thought to create volatility.

The intent of a trading halt in such situations is to allow full dissemination of information and sufficient time for traders to reflect on their strategies.

Note: a “halt” differs from and is unrelated to “stop”/“stop-loss”/“stopping” and “closing”.

Individual stocks

Trading halts are declared in unusual conditions that make it difficult to sustain a fair and orderly market.

Regulatory halts are declared by the Exchange when significant news about the firm is pending or being disseminated.

Non-regulatory halts are declared by Floor Officials in response to extreme order imbalances or technical malfunctions.

Usually after an order imbalance halt, the Exchange will contact the company and ask if there’s any pending news. If there is, the halt will get changed to a “news pending” halt.

After a decent interval the market is reopened with indicative quotes and a single-price call.

Fast trading: when activity is such that bid and offer quotes can’t be disseminated in a timely fashion, the quotes may be broadcast with a “not firm” indication.

Historically, the NYSE has been in a good position to declare order imbalance halts because the specialist generally saw almost all of the order flow.

This is not presently the case.

Market-wide “circuit breakers” (Rule 80B)

The market-wide circuit breakers halt trading in all stocks.

Declines of 10%, 20% and 30% in the DJIA establish progressively more restrictive halts.

A 10% drop before 2pm halts trading for one hour; 30 minutes, if between 2:00 and 2:30; and no effect afterwards.

A 20% drop before 1pm halts trading for two hours; between 1pm and 2pm, for one hour. A 20% drop after 2pm halts trading for the rest of the day.

A 30% drop halts trading for the rest of the day.

See, for example, the NYSE press release, [NYSE Announces Second-Quarter 2004 Circuit-breaker and Trading Collar Levels](#).

Current Rule 80B triggers have not yet occurred.

9.6 Closing procedures

(FOM, Ch. 12)

The NYSE closes at 4pm. The last trade of the day is a particularly important one.

The closing prices is often used for computing net asset values of mutual funds and settling derivatives.

Closing volume is often very high.

The NYSE has special closing order types: market on close (MOC) and limit on close (LOC).

There is a 3:40 deadline for the submission of MOC/LOC orders.

Shortly after 3:40pm, the specialist publishes the net closing order imbalance.

After 3:40, on-close orders are only accepted on the stabilizing side of the market.

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For example, if there were 200,000 sh in MOC orders to sell, and 150,000 sh in MOC orders to buy, only on-close buy orders could be submitted.

So why don't we simply put in a million shares on both sides of the market and later at our convenience cancel the side or portion that we don't want?

Cancellations are generally not permitted.

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