

actively-traded stocks on a one-week pilot basis to assess the impact of autoquoting of bids and offers in connection with the Exchange's initiative to disseminate "liquidity quotes." Below is the text of the proposed rule change. Proposed new language is *italicized*.

\* \* \* \* \*

## Rule 1000

### Automatic Execution of Limit Orders Against Orders Reflected in NYSE Published Quotation

Only straight limit orders without tick restrictions are eligible for entry as auto ex orders. Auto ex orders to buy shall be priced at or above the price of the published NYSE offer. Auto ex orders to sell shall be priced at or below the price of the NYSE bid. An auto ex order shall receive an immediate, automatic execution against orders reflected in the Exchange's published quotation and shall be immediately reported as NYSE transactions, unless:

(i)-(vi) No change.

Auto ex orders that cannot be immediately executed shall be displayed as limit orders in the auction market. An auto-ex order equal to or greater than the size of the NYSE's published bid or offer shall trade against the entire published bid or offer, and a new bid or offer shall be published pursuant to Rule 60(e). The unfilled balance of the auto ex order shall be displayed as a limit order in the auction market.

*During a one-week pilot program in 2003, NYSE Direct+ shall not be available in the following five stocks: American Express (AXP), Pfizer (PFE), International Business Machines (IBM), Goldman Sachs (GS), and Citigroup (C). The Exchange will announce in advance to its membership the week the pilot will run.*

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## II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of, and basis for, the proposed rule change. The text of these statements may be examined at the places specified in Item III below. The Exchange has prepared summaries,

set forth in Sections A, B, and C below, of the most significant aspects of such statements.

### A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

#### 1. Purpose

The Exchange has begun to test on the Exchange's floor its initiative to disseminate "liquidity quotes"<sup>5</sup> in addition to the NYSE's highest bid and lowest offer. As part of this initiative, the Exchange has amended Rule 60 to provide that the Exchange will "autoquote" or automatically update the NYSE's highest bid or lowest offer whenever a limit order is transmitted to the specialist's book at a price higher (lower) than the previously disseminated highest (lowest) bid (offer).<sup>6</sup> When the NYSE's highest bid or lowest offer has been traded with in its entirety, the Exchange will autoquote a new bid or offer reflecting the total size of orders on the specialist's book at the next highest (in the case of a bid) or lowest (in the case of an offer) price.<sup>7</sup>

The NYSE believes that both NYSE Direct+ and autoquoting have the potential to impact the functioning of the NYSE's auction market, as they involve, without specialist or trading crowd intervention, changes to the depth of the market and prices at which securities may trade. NYSE Direct+ involves automatic executions of limit orders of 1,099 shares or less against the Exchange's best bid or offer.<sup>8</sup> According to the Exchange, NYSE Direct+ executions have the potential to change the depth of the market, as well as the tick and last reported sale. Autoquoting involves the automatic adjustment of the Exchange's disseminated bids/offers as new limit orders are received onto the specialist's book.

In anticipation of the rollout of NYSE Liquidity Quote,<sup>SM</sup> as approved in SR-NYSE-2002-55,<sup>9</sup> the Exchange would like to test the impact of autoquoting without the impact of NYSE Direct+ occurring at the same time. To do so, the Exchange is proposing to disengage NYSE Direct+ in five actively-traded stocks during a one-week pilot program. The stocks, which include one company from each of the Exchange's five largest specialist units, are American Express

(AXP), Pfizer (PFE), International Business Machines (IBM), Goldman Sachs (GS), and Citigroup (C). The Exchange represents that it will study the impact of autoquoting on the Exchange floor<sup>10</sup> with regard to liquidity, continuity, spread, depth, number of trades, and other variables.

The Exchange notes that any NYSE Direct+ order ("auto-ex order") that would be entered during the one-week pilot in the five stocks mentioned above would automatically be converted to a SuperDOT order during that time for representation by the specialist in the Exchange's auction market.<sup>11</sup> Further, the Exchange intends to implement the one-week pilot as soon as practicable after Commission approval and will notify the Exchange's membership at least one week prior to the actual implementation date of the one-week pilot.<sup>12</sup>

#### 2. Statutory Basis

The Exchange believes that the proposed rule change, as amended, is consistent with Section 6(b)(5) of the Act,<sup>13</sup> which requires, among other things, that the Exchange's rules are designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, to protect investors and the public interest.

### B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange believes that the proposed rule change will not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

### C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants or Others

The Exchange has not solicited nor received written comments on the proposed rule change.

## III. Solicitation of Comments

Interested persons are invited to submit written data, views and

<sup>10</sup> Telephone conversation among Sonia Trocchio, Special Counsel, Division, Commission, Donald Siemer, Director, Rule Development and Jeffrey Rosenstruck, NYSE, dated May 2, 2003.

<sup>11</sup> Currently, under Exchange Rule 1000, auto-ex orders that cannot be immediately executed shall be converted into SuperDot orders and displayed as limit orders in the auction market. Telephone conversation among Sonia Trocchio, Special Counsel, Division, Commission, Donald Siemer, Director, Rule Development and Jeffrey Rosenstruck, NYSE, dated May 2, 2003.

<sup>12</sup> See Amendment No. 1, *supra* note 3.

<sup>13</sup> 15 U.S.C. 78f(b)(5).

2001) SR-NYSE-00-18). The Direct+ pilot was subsequently extended for an additional year by Securities Exchange Act Release No. 45331 (January 24, 2002), 67 FR 5024 (February 1, 2002) (SR-NYSE-2001-50), and recently extended for an additional year by Securities Exchange Act Release No. 46906 (November 25, 2002), 67 FR 72260 (December 4, 2002) (SR-NYSE-2002-47).

<sup>5</sup> Liquidity quotes represent additional buying and selling interest below the best bid and above the best offer.

<sup>6</sup> See Securities Exchange Act Release No. 47614 (April 2, 2003), 68 FR 17140 (April 8, 2003) (order approving SR-NYSE-2002-55).

<sup>7</sup> See *id.*

<sup>8</sup> See *supra* note 4.

<sup>9</sup> See *supra* note 6.