

ICE Plans New Trading Platform for NYSE Options

By Joanne Morrison

During the second half of 2015, Intercontinental Exchange will begin rolling out Pillar, a new trading platform with greater capacity and new trading functionalities, across the range of markets operating under its subsidiary NYSE Group.

Integration of this engine will first start with the NYSE Arca cash equity market later this year and will be rolled out across all NYSE exchanges during 2016 and 2017, including its two options exchanges—NYSE Amex and NYSE Arca Options.

Steve Crutchfield, the head of options markets at NYSE, said Pillar will be designed to address the rapid growth in options volume and message traffic and facilitate continued development of new products, order handling mechanisms and risk management requirements.

“Options volume now exceeds 14 million contracts daily across the industry on nearly 800,000 series,” said Crutchfield. “That creates challenges in consistently managing bandwidth, order handling and connectivity.”

Crutchfield added that the new platform also will incorporate the benefits of complex orders and electronic price improvement auctions while providing a streamlined API and post-trade experience across all of the NYSE exchanges. The new system will offer one means of accessing all seven NYSE Group exchanges, which the exchange expects will result in significant time and cost savings for customers coding and routing to those markets.

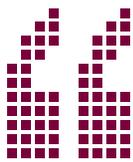
The enhancements come as U.S. options exchanges are continuously making improvements to their platforms to adjust to changing customer needs and the market’s rapid evolution. The last six years have been characterized by rapid growth in message traffic as well as the introduction of new products and order mechanisms. In addition,

transaction speeds have accelerated, forcing the industry to develop better risk controls and harmonize error trade policies.

Risk Controls

Last September the OCC and U.S. options exchanges agreed on a broad set of risk control standards to reduce the risk of loss from errors or unintended activity. These controls include price reasonability checks, drill-through protections, activity-based protections, and kill-switch protections. Beginning in 2016, additional fees will apply to trades on any exchanges that do not meet these new standards.

Crutchfield said NYSE’s Pillar will not only meet these new standards but introduce additional protections and functionalities. The goal is to reduce the



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likelihood and impact of erroneous trades on customers and markets, a critically important safeguard in today's highly electronic markets.

“One of the most important elements of Pillar is a strong suite of risk management tools, which we are developing to go beyond the OCC-mandated baselines, incorporating functionality requested by our customers to streamline their own regulatory compliance efforts,” said Crutchfield.

These tools comprise comprehensive

pre- and post-trade risk mitigation mechanisms, including checks for pre-trade size and price reasonability, as well as self-trade prevention for market makers alongside routing logic protections, activity-based thresholds and cross-exchange risk mitigation. NYSE Amex and NYSE Arca will use the standard protections of limit order reasonability checks while offering updated concepts such as price reasonability checks for market-maker quotes and configurable drill-through protection for market orders.

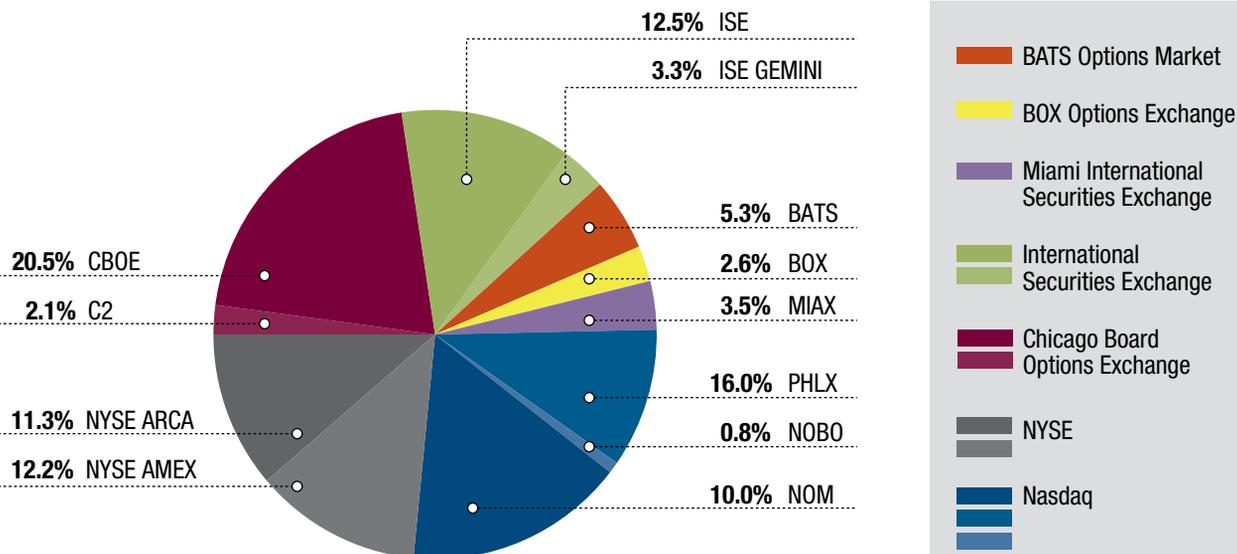
What's Next?

Crutchfield and his team are currently finalizing the timeline for the development, testing and implementation process. In the latter part of 2016, customers on the two NYSE options exchanges can expect to begin migrating to the new trading engine, Crutchfield said.

NYSE Arca equities will be the first to move to Pillar, after which NYSE Group's technology team will apply the knowledge gained from that process to its other

A Competitive Market

NYSE is one of several exchange groups battling for market share in the highly competitive U.S. options market. Currently there are seven companies operating 12 exchanges in this market. In 2014, more than 3.8 billion equity options were traded on these 12 exchanges, with NYSE Amex and NYSE Arca capturing a combined 23.5% of the volume.



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exchanges to further refine the system and improve the customer implementation experience.

NYSE Group expects to make significant progress on the specifications and roadmap in 2015, begin the equities rollout in late 2015, and to start introducing the options-specific version of Pillar in late 2016 with the rollout finalized in 2017.

Crutchfield emphasized that NYSE Group will continue to communicate updates on Pillar's functionality, timing and anticipated rollout through a combination of mass customer outreach and direct contact with firms.

"This is a multi-year initiative to transform all of our markets. From its inception, Pillar has been designed to find the optimum balance of performance, reliability and simplicity—all of which reflect our core belief that our markets should empower customers to trade more effectively. This enhances market quality and most importantly, investor confidence," he said. 

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Joanne Morrison is deputy editor of *Futures Industry*.

Traders and market-makers at work in the NYSE's Buttonwood Room.

