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INSIGHT

The Closing of the New York Stock Exchange's Trading Floor Due to COVID-19

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The New York Stock Exchange (NYSE) is a major secondary market trading venue for corporate stocks. On March 18, 2020, the exchange's parent company, the Intercontinental Exchange Incorporated, announced that after several of the exchange's employees tested positive for Coronavirus Disease 2019 (COVID-19), it was taking the precaution of temporarily closing its iconic and densely packed human trading floor. In advance of the closure, the Securities and Exchange Commission (SEC), the principal regulator of domestic stock exchanges, granted its approval.

On May 26, the exchange reopened the floor after the imposition of health-related requirements, including limiting the number of traders to a fraction of its former size, mandatory masks, a directive to avoid public transportation, entrance to the exchange conditioned on temperature testing, and social-distancing facilitated by plexiglass barriers. In addition, floor traders must reportedly sign a liability waiver that prevents them from suing the NYSE, if they get infected there. This Insight examines the closure, its impact, and its potential implications for the trading floor's future.

The NYSE and the Trading Floor

Trading several billion shares daily, the NYSE, which dates to the 18th century, ranks second to the Nasdaq Stock Exchange in trading volume among global stock exchanges. Decades ago, the trading floor was where all of the exchange's trades were conducted. More recently, the NYSE adopted a hybrid electronic and human trading model, with electronic trading becoming more and more prevalent. Immediately prior to the COVID-19 pandemic, about 80% of the trading volume was done electronically. With the temporary closure, the exchange became 100% electronic.

The exchange conducts initial public offerings and trades the shares of companies that it lists as well as those that are listed on other exchanges like the Nasdaq. NYSE-listed firms include legacy "blue chip" companies such as Coca Cola, Pfizer, Diebold, Procter & Gamble, General Motors, Boeing, Johnson & Johnson, and IBM. An anomaly among the other entirely electronic modern stock exchanges, the NYSE's trading floor is manned by floor brokers and designated market makers (DMMs).

DMMs, formerly called specialists, are obligated to maintain fair and orderly markets in their assigned stocks. Operating both manually and electronically, they facilitate *price discovery*—the determination of

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proper share prices—during market openings, market closings, and episodes of pronounced trading imbalances and market instability.

Floor brokers are exchange members who act as independent agents for financial service firms, pooled investment funds, and high-net-worth individuals. They initially receive orders for stock trades directly from clients or from clients' brokerage firms. In pursuit of the best available share prices in the execution of clients' orders, the brokers interact with DMMs or bid against other floor brokers.

While the trading floor was shuttered, DMMs away from the floor remotely participated in their normal trading activity, a protocol that persists after the floor's reopening. During the closure, floor brokers, however, were not able to execute trades.

The Question of the Floor's Obsolescence

The temporary shuttering has intensified interest in an ongoing debate over the utility and necessity of the trading floor, which some characterize as an obsolete relic. The number of floor brokers has declined from about 2,000 a few decades ago to a few hundred before the temporary closure. Exchange officials argue that the work done on the floor helps to reduce stock volatility and generate fairer stock prices.

For some, the floor's temporary shutdown provided a natural experiment on the nature and quality of trading at the exchange both with and without the trading floor. That opportunity has been exploited by some researchers, who collectively provide a mixed picture on the benefits of floor trading.

NYSE researchers examined trading data of domestic corporate stocks with market capitalizations above $500 million between February 20, 2020, and March 20, 2020, a period that witnessed a historically unprecedented stock market price drop. That trading data was compared to data from the floor closure period of March 23 through April 15, a period which witnessed a stock market rebound. The research found that the average bid-ask spread, a key transactional cost of trading, widened after the closure. In addition, during the critical, final 30 minutes of trading on the exchange, the size of actionable liquidity, orders for stock trades capable of being interacted with other orders, was found to have substantially narrowed during the floor closure.

The closing stock price auctions are the final trade executions for stocks at the end of the trading day. The generated stock prices are critical valuation benchmarks for index funds, exchange-traded funds (ETFs), futures, and options. Before the trading day's close at 4:00 p.m. eastern standard time, transactions in NYSE-listed stock are split among various trading venues, including the NYSE, other exchanges, and dark pools. However, during the closing auctions, trading in NYSE-listed stocks is solely conducted on the exchange.

The closing auctions account for a disproportionately large percentage of trading volume on the exchange (about 6% of typical daily trading volume). Floor brokers play a critical role in the auctions and have been given a monopoly on the final 10 minutes of trading on the exchange when the floor is open. Some observers say that particularly during the closing auctions, the brokers provide valuable trading intelligence through "… hanging out with the other traders, hear[ing] things, … see[ing] things, [and] feel[ing] things."

Hu and Murphy's academic research examined the impact on the shuttered trading floor on closing stock auctions at the exchange. They found that the NYSE's "indicative" auction prices, which indicate imminent closing stock prices, became more accurate after the trading floor was shut down. They also concluded that the temporary shutdown enhanced a measure of closing auction liquidity, the percentage of a subset of trading volume called matched trading volume (paired buy and sell orders), which jumped after the floor closed.

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