



NETWORK NYSE

as reinvention proceeds at the nyse, the term “market of choice” takes on new meaning.

ILLUSTRATION BY NEIL LESLIE

IN APRIL, AFTER SIX MONTHS of research and analysis, the New York Stock Exchange board of directors embraced a report recommending a multi-platform market structure built on customer choice. The new structure, which represents the baseline of reinvention at the NYSE, integrates new execution and information initiatives into the Exchange’s agency-auction approach without fragmenting the market and while retaining investor protection.

A few months from now, shareholders of NYSE-listed companies and new investors will be clicking into the Exchange. Via the Internet, they’ll have high speed and ubiquitous access to the Exchange’s base of liquidity and information and, for the first time, have access to automatic order execution for orders up to 1,099 shares.

These are among the initiatives contained in the report of the NYSE’s Special Committee on Market Structure, Governance and Ownership, which provides the blueprint for building “Network NYSE”—a multi-platform market structure built on investors’ choice in how they access and utilize the unparalleled liquidity, transparency and depth of the Exchange.

A committee of the NYSE’s public directors received input from dozens of individual and institutional investors, pension managers,

specialists and floor brokers, listed companies, member organizations and industry experts.

“The testimony from presenters was wide-ranging, thoughtful and provocative,” says NYSE Director and Committee Co-Chairman Alex Trotman, former chairman and CEO of Ford Motor Corp. “The new structure will integrate new execution and information initiatives into the Exchange’s agency-auction market without fragmenting the market, and retains the investor protections that are the hallmark of the NYSE.”

Network NYSE represents a new way of doing business at the Exchange and underscores the growing and diverse needs of issuers and investors. The report cited that many institutions want to be closer to the point of sale, to reduce the market impact of large orders, and to improve market transparency.

In addition, some individual investors seek certainty and speed of execution—even at the expense of possible price improvement. Most importantly, the initiatives ensure that investors of listed companies, both large and small, benefit from the NYSE’s inherent fairness, stability, efficiency, and superior price discovery.

The NYSE’s response is a re-engineered trading model that takes advantage of current and future technological advances to best address investor needs. Among the initiatives are:

NYSEDirect+™: an electronic communications network that lets customers receive automatic execution of limit orders of 1,099 shares or less;

Institutional XPress™: an information and execution product that provides electronic communications links between institutional investors and the trading floor;

e-Broker: a wireless, hand-held order-management system that enables NYSE floor brokers to be in constant contact with their customers, sending market information and receiving orders back in seconds; and **Virtual Trading Floor**: an information product that enables individual and institutional customers of member firms to view a virtual depiction of the NYSE and click-on real-time news and proprietary information about listed stocks.

“The committee’s work maintained an intense focus on determining what structure would best meet the needs of the Exchange’s customers in a dynamically changing technological environment,” says NYSE Director and committee co-chairman Clifton R. Wharton Jr., former chairman and CEO of TIAA-CREF. “As public directors, the committee sought to identify structural improvements that would achieve fairness, stability, efficiency, true price discovery and, above all, meet the needs of large and small investors.”

The impetus for this effort came last October

when the NYSE’s board of directors asked its public directors to evaluate and make recommendations on issues related to market structure, governance and ownership in light of the dramatic influence of technology and competition on the securities industry. Market structure was the first tackled; governance and ownership will be addressed later this year.

“The Market Structure Report confirmed that the NYSE’s floor-based agency-auction model remains the most efficient and effective way to trade securities of companies that meeting the NYSE’s stringent listing standards,” said Exchange chairman and CEO Richard A. Grasso. “Our success will be destined by our continuing to embrace and deploy technology to offer investors, through their broker-dealers, a wide range of information products and execution services.”

With an even-broader view, the committee also concluded that competition among market centers and, most importantly, among orders both large and small, is the model that can best serve public companies and investors who have

tribute to optimum price discovery.

In like fashion, the committee took to task the notion of electronic intermarket linkages, such as the Intermarket Trading System (ITS), which lets participants from numerous markets route orders among them to execute trades with the best-priced quotes. The committee believes that advances in communications technology have introduced more direct and efficient means of routing orders among markets than intermarket linkages. Such technology could enable broker-dealers to fulfill their best-execution obligations with their own information and order-routing systems rather than through exchange linkages.

One of the more important recommendations of the committee is that an information initiative must be started to heighten public awareness of order-execution and market-structure issues.

“The informational program is an important component to rolling out the new initiatives,” says NYSE senior vice president Robert McSweeney. “Most individual investors are not aware of how their

The ongoing work of the committee will be to maintain the NYSE’s preeminence and put customers’ needs first.

a stake in them. The report noted that a one-market, monolithic approach would stifle competition and innovation and deny investors a choice in where their orders are routed. A better approach, according to the committee, is to broaden the array of choices by offering automatic execution for those who want it and maintain traditional order routing and execution services for customers who choose that.

With that as a foundation, the committee rejected proposals for a consolidated limit-order book (CLOB), because they believe it segments the market between large and small orders and significantly impairs price discovery. It also works to the advantage of some industry participants at the expense of others and eliminates the specialists’ affirmative obligation, thereby increasing volatility.

Similarly, the committee vigorously opposed current payment-for-order-flow practices and internalization of orders by brokerage firms. Orders handled this way, they explained, do not interact with other public orders and are often denied the opportunity to receive the full degree of price improvement and do not con-

orders are being executed or whether their orders in NYSE-listed stocks are being internalized. It’s extremely important to empower individual investors in the decision-making process, because order-routing decisions certainly impact their costs.”

The NYSE hopes to complement its own information initiative with similar ones begun by its listed companies, which will be encouraged to help educate their shareholders on how the markets operate and are being transformed in this technologically explosive period.

Obviously, all of this is just a starting point. The committee’s ongoing work will further the NYSE’s leadership position and support the goal of placing customer interests first. It will continue to engage broad-based feedback from investors and address their needs in innovative ways, while maintaining the standards of service and excellence that have produced an unparalleled level of confidence in the NYSE as the market-of-choice for issuers and investors. □

The Market Structure Report of the New York Stock Exchange Special Committee on Market Structure, Governance and Ownership is available on nyse.com.