

EXCHANGE EXPANSION

Amex acquisition strengthens NYSE Euronext's U.S. offerings.

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THE STRATEGIC ACQUISITION of the American Stock Exchange® (Amex®) underscores **NYSE Euronext's** (NYX) leadership in worldwide exchange consolidation and its commitment to creating value. In addition to building its cash equities business, the recently completed transaction greatly expands the exchange group's product offerings, particularly U.S. options and exchange-traded funds (ETFs) and exchange-traded notes (ETNs).

"NYSE Euronext is the established leader in financial-market consolidation, offering the most attractive and diverse array of products of any global exchange," says NYSE Euronext CEO Duncan Niederauer. "This transaction strengthens our competitive position in the U.S., produces significant operational efficiencies and creates new business opportunities."

NYSE Euronext paid \$260 million in common stock for the 166-year-old market. Amex members are also entitled to additional NYSE Euronext common shares based on net proceeds, if any, from the expected sale of Amex's lower Manhattan headquarters.

Renamed NYSE Alternext US LLC, Amex is now a wholly owned subsidiary of NYSE Group. The transaction, which has been approved by Amex members and U.S. regulators, is expected to be accretive to earnings in 2009. The company expects to realize annualized cost synergies (from technology, data center and staff integration, as well as service and vendor consolidation) of \$100 million by the end of 2009. All of Amex's equity trading floor operations, including floor traders and designated market makers (DMMs), previously known as specialists, will move to the NYSE's Wall Street trading floor facilities in December, and the remaining options trading operations and staff will follow in February 2009.

TRADERS ONLY NEED ONE LICENSE TO TRADE BOTH NYSE ALTERNEXT AND NYSE LISTED EQUITIES.

NYSE and NYSE Arca trading platforms are replacing Amex's technology, updated to make it easy for member firms and individuals with trading rights to send order flow. They need only one license to trade both NYSE Alternext and NYSE listed equities, although they must become members of both self-regulatory organizations (SROs). Former Amex members are subject to the NYSE's broader regulatory requirements, including the need to become limited-purpose members of FINRA (the Financial Industry Regulatory Authority, created in 2007 through the consolidation of NASD and NYSE Member Regulation). This includes DMMs, who have to comply with the same quantitative depth and continuity guidelines required by the

NYSE, and excludes firms doing options-only proprietary business.

This regulatory streamlining enables broker-dealers to more efficiently serve their clients in both the NYSE and NYSE Alternext market centers. Floor brokers can service their clients in both SROs from the trading floor at the same time. Issuers and investors benefit too, as they should anticipate improved market quality in the trading of these securities on the NYSE's faster, more robust and more reliable systems. Issuers can also expect continuity in the trading of their stock, as in most cases they will maintain the same DMM.

OPTIONS GALORE

A benefit of the acquisition is NYSE Euronext's ability to expand its robust U.S. options trading business. It instantly garners Amex's approximate 5 percent market share of U.S. options trading while acquiring the SRO upon which it can place its options technology platform.

With the merger, NYSE Euronext now operates a compelling dual market structure in the U.S. The traditional Amex market-maker model offers customer priority; thus, customer orders are filled first, followed by those of professional traders based on their quoted size in the market. NYSE Arca's electronic price-time priority model favors no type of market participant, and one fee structure applies to everyone: Liquidity providers get paid, and liquidity takers get charged. These two exchanges will compete side by side, similar to the way NYSE and NYSE Arca compete for equity trading volume, providing access to "100 percent of the U.S.-listed options traders and order flow out there," says Ed Boyle, NYSE Euronext senior vice president and director of options.

Another benefit of offering dueling markets is the capture of larger market share, because each has a different clientele. “Just as some people use discount brokers and some use full-service brokers, you need both structures to attract the full customer base,” notes Boyle. He adds that the two markets offer a hybrid trading environment in which participants can electronically quote in each market center or participate in the open outcry on the trading floor.

A SINGLE MARKET FOR ETFs

The Amex transaction also significantly strengthens NYSE Euronext’s leadership in the listing and trading of exchange-traded products (which include all index-based notes and fund issuances), as approximately 675 Amex listings join NYSE Arca listings. As of Aug. 30, NYSE Arca, the market where all NYSE Euronext U.S. ETFs and ETNs trade, has 271 ETF listings (from 14 issuers) and 79 ETN listings (from 11 issuers). These listings represent nearly \$317.5 billion in ETF and ETN assets under management in the U.S., more than any other exchange. With Amex’s 415 ETF and 13 ETN listings, NYSE Euronext’s U.S. leadership position exceeds 680 ETFs and 90 ETNs.

Unlike the cash equities and options markets, all U.S.-listed ETFs will trade on the all-electronic NYSE Arca, with all Amex-listed ETFs transitioning by Dec. 1. Already Vanguard brought over 34 ETFs on Sept. 19, joining the four previously trading on NYSE Arca, including **VANGUARD TOTAL WORLD STOCK ETF** (NYSE Arca: VT). “We were delighted to list all Vanguard ETFs on NYSE Arca, which continues to make significant strides in picking up ETF trading market share,” says Gus Sauter, Vanguard’s chief investment officer. “It is a robust electronic platform with an innovative market-making function and strong commitment to its ETF business.”

“NYSE Arca is the most efficient and industry-preferred U.S. market structure for ETF trading. It combines a robust price-time



priority market structure with the benefit of dedicated Lead Market Makers whose role is to, among other things, provide a two-sided continuous quote and to maintain certain depth and spreads,” says Lisa Dallmer, NYSE Euronext senior vice president of Global Exchange Traded Products and Index Services.

NYSE EURONEXT GREATLY EXPANDS ITS U.S. OPTIONS AND ETF TRADING.

As the first fully electronic platform to use designated liquidity providers, NYSE Arca sets the national best bid and offer nearly 85 percent of the time, leading all U.S. exchanges. This means that “issuers transitioning to NYSE Arca and their investors will benefit from improved market quality, as well as all of the visibility, branding and issuer services that NYSE Euronext is known for,” Dallmer adds.

“NYSE Arca has very strong technology in its trading platform,” says Martha Papariello, who runs Vanguard’s Financial Advisor Services business unit. “Our taking advantage of the NYSE Euronext partnership could open additional doors for us.”

CASH EQUITIES TRIFECTA

For U.S. cash equities trading, NYSE Euronext now offers three complementary exchanges: the NYSE, NYSE Alternext and NYSE Arca. Alternext previously was only available in Europe to small and mid-size companies seeking simplified market access. Now NYSE Alternext extends that brand in the U.S.

In fact, most of Amex’s 550-plus stocks are small caps, with about 30 qualifying for an NYSE listing and 40 for an NYSE Arca listing. Those issuers can choose to shift their listings to those venues, and the remaining Amex companies will trade on NYSE Alternext. When Amex stocks begin trading on NYSE systems later this year, each will be assigned to a DMM and trade at designated posts on the trading floor. Says Larry Leibowitz, head of NYSE Euronext’s U.S. execution and global technology: “NYSE Alternext will be a listing and execution tier for emerging companies.” ■

This article includes information that may constitute “forward-looking statements,” as it is based on current expectations and assumptions that are subject to risks and uncertainties. Please refer to the complete text of the Cautionary Note on page 3 for further information on factors that could cause actual results to differ materially from forward-looking statements.