



DURING HIS RECENT VISIT TO CHINA, NYSE CEO JOHN A. THAIN MET WITH PREMIER WEN JIABAO.

The new year promises a new set of opportunities and challenges for today's global leaders and enterprises.

The new year brings with it new opportunities and new challenges for global leaders and enterprises. We operate in an increasingly complex environment that demands adaptability and innovation. The way we approach everything, from corporate governance to regulatory compliance to defining our customer base, is changing. We as leaders must develop effective strategies to sustain and grow our businesses while serving a more diverse constituent group.

This year I have the privilege of co-chairing the World Economic Forum's annual meeting in Davos, Switzerland, where I look forward to dialogues on these and many other issues built around this year's theme of "Tough Choices for Tough Times." Beyond the cover story on Xerox, this edition of *nyse magazine* tackles some of those issues. For example, in the Roundtable on page 18, CEOs describe how they're meeting the needs of customers and shareholders in all corners of the world. The BBVA profile on page 34 exemplifies such strategic global expansion, as the bank expands into the U.S. Southwest after penetrating markets across Latin America.

The integration of China into the global marketplace is bringing unprecedented opportunities for corporate leaders. Beginning on page 24, our Special Report showcases this dynamic and complex market. The For Stakeholders column, page 48, also discusses the importance of doing business in China.

For the NYSE, China is now the single-largest source of listings from the Asia-Pacific region. Our 17 mainland China companies have a combined market value of nearly \$300 billion. As its companies embrace high standards of governance and transparency, we expect more listings from China. We have a cooperative arrangement in place with the Shanghai Stock Exchange, and this year we look forward to opening a new office in Beijing, our third in Asia.

Innovation starts with customers and finding ways to serve them better. Since arriving at the NYSE one year ago, my paramount goal has been to strengthen investor confidence. Therefore, I've spent much of my time meeting with customers. All investors must be assured the opportunity for the best price and the best value from their trading venue.

This goal led to a series of changes. We simplified listed companies' ability to change specialists. We introduced new technologies, such as NYSE Tradeworks, a new order-management and messaging system for floor brokers. We created our hybrid-market initiative to respond to those wanting the ability to trade electronically, instantaneously and anonymously, without foregoing the benefits of the auction market. And, as explained on page 46, we're launching NYSE eGovDirect.com, a Web tool to help companies meet their governance and compliance requirements. These changes make clear that at the Exchange, the customer comes first.

#### U.S. MARKET REFORMS

This year is also an important one for the structure of the U.S. equity markets. Since early 2004, the SEC has been working on a proposal for a new structure for our national market system. We believe this structure, known as "Regulation NMS," should protect investors by providing a framework to ensure they receive the best price on their transactions and also benefit from the forces of competition and innovation that have made our markets the envy of the world. The SEC has put on the table two alternatives: one of which achieves both these objectives, the other of which would effectively transform our markets into a homogenized government utility.

Throughout its deliberations of Reg NMS, the SEC has properly emphasized the importance of protecting the best prices in each market center. This principle gives investors — large and small — confidence that if they take the risk to be the best bid or offer, they will not be "traded through." Therefore, investors have an incentive to gather at the best price, or better it. The results are tighter spreads, greater liquidity, and equal treatment for all types of investors.

Order competition is complemented by competition between markets. Intermarket competition spurs innovation and leads to the creation of an array of trading alternatives. Markets compete on the basis of order aggregation and efficient price discovery. This lowers trading costs and keeps our markets the best and most dynamic in the world.

Until now, the SEC has successfully maintained the important balance that separates order competition within markets and competition between markets. But one alternative proposed by the SEC eliminates the latter by requiring that markets route orders to any displayed limit order in any market center. Such a proposal would transform our market system into a virtual Consolidated Limit Order Book, or CLOB. The CLOB has been proposed in the past, debated at length, and wisely and repeatedly rejected for a number of reasons; foremost among them, it would convert our dynamic, diverse and internationally competitive markets into a government-mandated, one-size-fits-all monolith.

Today, the preferences of investors and issuers, rather than regulation, determine which market models are successful. Investors in U.S. markets benefit from spreads that are among the tightest and transaction costs that are among the world's lowest. They also benefit from the freedom to choose the type of execution that is right for their order, whether they are a retail investor purchasing 100 shares or an institution trading one million shares.

Companies cite lower volatility as one of the most important criteria of market quality. In 2002 and 2003, 51 companies switched to the NYSE from NASDAQ, and over the next year their intraday volatility fell, on average, by half. That decline is evidence of the value of the auction market, where live, thinking human beings add judgment to the price-discovery process and, when necessary, inject liquidity. This is particularly important at openings and closings, with earnings surprises or when markets are disrupted by unusual events or takeover news.

Regulation should not undermine the forces of competition, but should instead set the framework on which competition thrives in a way that best serves investors. Today, this competition is driving significant change at the NYSE — leading us to evolve our business model to meet our customers' demands while providing best price protection. We should avoid trying to fix something that is not broken.

We applaud the SEC for taking on the complex and important task of modernizing and strengthening the way our equity markets function. We all need to take the time to focus on and unite around a public policy that is best for our markets and for investors. By striking the proper balance between healthy and effective market competition and incentives for investors to compete within each market center, the SEC will ensure that America maintains its position in financial markets.

#### RESPONDING TO THOSE IN NEED

The NYSE community joined the rest of the world in mourning the victims of the tsunami that struck the nations of South Asia. The New York Stock Exchange Foundation, the private philanthropic foundation established by the NYSE, donated \$1 million in support of relief and recovery efforts in the region. The donation will be divided equally between Americares and Save the Children.

Sincerely,



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