

**Reinventing the New York Stock Exchange**  
Perspective by Richard A. Grasso  
NYSE Chairman and CEO

Never before in the history of this great marketplace has change been so swift and dramatic. Looking ahead, the NYSE will face new and exciting challenges, more so than at any other time in our 207-year history. The Exchange will find itself in a global, competitive arena--in an environment where providers of alternative services will proliferate. This is why the critical challenge for the NYSE, as we enter the new millennium, is to determine what will define our institution going forward.

The NYSE—a marketplace that trades 3,100 of the world’s greatest companies through more than 400 broker/dealer members and produces more than \$35 billion of commerce each day—once again must reinvent itself. Why? Our customer profile has changed dramatically. The globalization that we've talked about for decades is finally upon us. Our regulatory environment is encouraging innovation and new entries. The competition and opportunities brought on by emerging technologies, specifically the Internet, are compelling drivers of change. For the Exchange, reinvention is absolutely essential for our business and for effectively serving investors in the United States and around the world.

At the Securities Industry Association (SIA) annual meeting in Boca Raton, Fla., last month, we announced a series of proposed initiatives that represents the initial phase, the base of reinvention at the Exchange. These initiatives, which signal fundamental changes in the way we do business, will lower investor costs, provide more advanced and faster connectivity for investors through their broker/dealers, and ensure the continued delivery of best execution. Together, they represent—in real terms—the “new” NYSE.

We believe our multi-pronged approach to reinvention recognizes that if the NYSE is going to remain the centerpiece of capital markets, it has to be a very different marketplace. It needs to be based on a platform of *choice*--choice to the consumer, and to the consumer's member firm, in how they access our market.

## **The New NYSE**

The new NYSE will offer this broader platform of choice. First, we will build an advanced electronic platform—some might call it an ECN within the NYSE—that will be fully integrated into our floor-based agency-auction model. At the heart of this electronic platform will be an electronic limit-order book, the contents of which will be ubiquitous. Investors will have many options for remotely viewing and accessing its contents, ranging from conventional data vendors to the Internet, and it will provide member-sponsored customers with seamless execution of orders for 1,000 shares or less.

This Internet-linked system will allow limit orders to be displayed and published in the United States and around the world. It will also provide a platform for after-hours trading, when appropriate. Investors, empowered by an NYSE member firm, will have access to live, real-time information on the new system's limit order book and the ability to execute trades. Investors will see the limit-order book and the liquidity at any time in any issue and be able to act on that information within our structure and, most importantly, with all the safeguards of an NYSE transaction.

## **Virtual Information Product**

We also announced last month the creation of a new product that provides a live, virtual depiction of the NYSE trading floor and enables customers of member firms to navigate the floor, “drill down” on specific listed stocks, and obtain real-time proprietary information from an NYSE system on those stocks. This new product, designed for both individual and institutional investors, will give member-firm-enabled customers the virtual experience of being on the trading floor while their orders are being executed. Our customers will be able to “fly” through this virtual depiction of the *new* NYSE and make informed investment decisions based on the information they obtain in the virtual model.

This is a very different pathway to the NYSE—a *virtual* pathway that gives investors, through their intermediary member organizations, the power to access market information as never before. We hope this platform will not only encourage current investors, but engage young

investors in America's market model, serving as both an investing tool and a very important pillar of economic education.

### **New Handheld Computers for Brokers**

Still, price discovery will continue to be agency-auction based. To link the electronic platform with the open-outcry platform, the NYSE is offering another electronic tool: *e-Broker*, a new wireless hand-held computer to be used by NYSE floor brokers. This full-function order-management system combines the benefits of broker execution with the speed and efficiency of electronic delivery systems. It enables brokers to be in constant contact with their customers. They can send customers market information and receive orders back from those customers based on that information, all in a matter of seconds.

Floor brokers will carry e-Broker in the palms of their hands to make certain that orders, whether on a physical or electronic platform, gain the best possible price. By seamlessly linking floor brokers to the new electronic platform, we will ensure an integrated market, rapid access to liquidity, customized electronic order flow, and the best execution of all orders.

### **Institutional XPress**

Worth noting, too, is our previously announced initiative, Institutional XPress<sup>SM</sup>, which is slated for spring 2000 delivery. As part of our emerging electronic strategy, Institutional XPress will provide our institutional customers with an open, viewable limit-order book, as well as additional proprietary information. This innovation will provide anonymous order routing, systemic execution, electronic and dynamic information flow, and systemic agency cross capability with the opportunity for price improvement.

### **Pricing Initiatives**

Additionally, we announced last month a critical initiative to increase to five minutes the window for providing commission-free transactions on systemically delivered orders. This ensures that any system order executed within five minutes will be free of specialist commissions and impacts approximately 90 percent of system orders delivered to the Exchange. This is a

major pricing initiative from the specialist community to its intermediary community, designed to make us even more cost effective in executing orders sent to the NYSE.

### **Open Dialogue with Customers**

As we venture into this new platform of choice, the NYSE recognizes that our initiatives have to be coupled with feedback from investors. We've talked with investors and constituents and have found that all want the most liquid markets with guaranteed best execution, lower costs with faster executions and the reliability and transparency only the Exchange is known for. This open dialogue will continue with our customers, and of course with our regulatory partner the SEC, as we continue to explore the entirety of our market structure.

### **Investors Always Come First**

As the clock ticks out on the 20th century, the NYSE has reason to be proud. But we have a very large agenda ahead. We must be equipped to succeed in our goal of being the centerpiece of the world's financial markets. To do so, we recognize the need to continue deploying the most sophisticated electronic capabilities available and to cast aside all that is no longer relevant.

Investors are entitled to the best possible price no matter where their orders originate or are executed. This is a challenge for the entire industry. Our collective goal must be to never forget who we serve: the investor.

Capital markets around the world look to what we've built here in America. Yet we are viewed with a competitive eye. If the American capital markets are going to lead, we must be prepared to cast aside those practices that served us well for the past 200 years but no longer are relevant. We must take all that is great and relevant and strong about our market and export it into the new model we build.

The NYSE takes this challenge, understands current customer demands, and looks forward to reinvention. It is an absolute essential. Those in the business of providing capital must band together to reinvent. And nothing should be held sacred except one principle: serving the investor.