



Bob Greifeld Speech  
May 24, 2006  
SIA Annual Market Structure Conference  
Grand Hyatt New York

**Thank you, Don, for that very gracious introduction and for the opportunity to visit with the SIA on some of the exciting, innovative, and market-leading developments we're seeing in the marketplace overall and at NASDAQ.**

**At NASDAQ we have always taken great pride in the speed and accuracy of our transactions, the transparency of our trading, and our worldwide leadership in the technology of the equity marketplace. Those attributes give us a compelling story to tell at a time of market transition. NASDAQ has been in the news quite a bit recently, so let me begin by updating you on some of our recent initiatives.**

**Specifically, I want to share our perspective on the state of play in global market consolidation. We believe NASDAQ is uniquely qualified to compete in this arena. When NASDAQ was formed in 1971 every single market on the planet was floor based and the world has essentially copied our model.**

**The similarities of our market model, together with our strong financial position and impressive growth prospects, have made NASDAQ a preferred partner for exchanges from all corners of the planet. It also positioned us to be the catalyst, the first to stake our position, in this phase of global consolidation with our investment in the LSE. We are very pleased with this purchase. We honor and respect the culture, traditions, and regulatory environment in which the LSE operates.**

**Page 2**

**We are confident our investment in the LSE is in good hands, and we admire the strong management team led by Clara Furse.**

**While I am obviously constrained as to what I can say about the LSE investment, I can state that this action is in the context of our strategic mission to be the leading global equity marketplace. NASDAQ is maniacally focused on this mission today – and we will be maniacally focused on this mission tomorrow.**

**When looking at the respective deals out there it is interesting to look at measures of liquidity. In 2005 NASDAQ traded approximately \$10 trillion of shares and London traded just below \$6 trillion. Clearly this contributes to our mission to be a global equity marketplace.**

**Additionally, our stake in the LSE is part of NASDAQ's overall investment, joint venture, and acquisition philosophy which is driven by our determination to provide superior returns to our shareholders. We did pay a premium to the core financial metrics of the organization to gain a significant LSE percentage stake in a timely manner.**

**We live in the area of globalization. Our companies have global operations and investors are aware of, pursue, and want to buy and sell equities independent of country of incorporation.**

Stock exchanges have for too long been identified with a single country. NASDAQ is proud to be in the vanguard in the process of global consolidation. But we are also aware that this is just first step in a long, complex effort to achieve greater market efficiency worldwide. The race to consolidation is not a sprint but a marathon, and NASDAQ will run hard at every milepost. We're in for the long haul.

Our effort to differentiate NASDAQ from our competitors is not limited to leadership in globalization. We recently announced the creation of our Global Select market, a premier listing tier with the highest financial and liquidity listing standards of any market in the world. It is a blue-chip market for blue-chip companies and you will see us implement our new market tiers in July.

We also recently completed the acquisition of Shareholder.com which offers best-in-class shareholder communications and intelligence services to issuers.

NASDAQ is extremely comfortable and confident in a rapidly changing trading environment. In many respects, we have never been in a better, stronger competitive position. We look forward to being operational as an exchange. We have a technology roadmap designed to create the most cost-effective operation in the industry – and it is working. With INET we lead the world in speed, reliability, and scalability. Our transaction time is measured in milliseconds; our transparency is unequaled. We are moving swiftly toward a single book and will complete the process in the fourth quarter. Traders are noticing these advances and taking advantage of them even in advance of Reg NMS.

Let me give you some specific examples. In the past six months we have taken \$50 billion in market capitalization from the NYSE. But we have also known for some time that stocks don't necessarily trade where the list. So we set out to increase NASDAQ's share of trading in NYSE-listed shares and we made that one of our major priorities. How are we doing?

Quite well. In April, we captured 20% touched market share in NY-listed securities – up dramatically from 9% a year ago. For the months of April and May we have seen average daily share volume of over 500 million in these securities.

Those trends are powerful and compelling. They exist for a reason, and the reason is this: 52% of the time NASDAQ's three electronic books are publicly quoted at the best price for active NYSE-listed securities. A year ago, the figure was 12%. Simply stated, today the odds are you will get a better price on NASDAQ.

But that is only part of the picture. We are also seeing that in many NYSE stocks (in the S&P 100) we are upwards of 60% in terms of time at the inside: for GE it is 72%, Time Warner, 76%, AT&T – 75%, Pfizer -69%, Disney, 68%.

One year ago if the floor of the NYSE hit 80% market share of the overall NYSE volume that was a good day. Today they have a good day with 75% of the volume.

The most startling fact buried in these numbers is that this transformation of the market has occurred before the race has begun. Equity trading in the US will be redefined by the implementation of Reg NMS. NASDAQ is prepared and we look forward to that date.

Decisions on where to list and trade have very real and measurable consequences. Recently there have been some large company switches from the NYSE to NASDAQ and we have had the opportunity to study trading quality in a new way, examining before and after differences in speed, spreads, best price and liquidity.

These switches have given us a unique opportunity to evaluate current markets on an apples-to-apples basis – something we have not been able to do before.

So we took a look at Cadence, with \$4.5 billion market cap, and Schwab, with \$19 billion, and here is what we found:

With Cadence, we have five months of comparative data. On the floor, Cadence traded with an average speed of 15.5 seconds vs. an average of 2.3 seconds on NASDAQ. The average effective spread was 1.24 cents on the floor vs. 1.15 cents on NASDAQ.

With Schwab we have three months of comparative data. The average speed on the NYSE was 8.9 seconds vs. .09 seconds on NASDAQ. The average effective spread was .99 cents on the floor as compared with .76 cents on NASDAQ.

Over the course of a single year this spread differential generated by the market inefficiency of a floor model means millions in lost return to shareholders. This fact is increasingly being recognized by the CEOs, management teams and boards of listed companies. Liberty Media, with a market cap of \$24 billion, switched directly from NYSE to NASDAQ. Liberty is the first major organization to switch without participating in our dual listing program.

I find it interesting that we see global consolidation and demands for speed and transparency in all aspects of our lives. Yet there remains one constant, immutable reminder of yesterday's markets – sort of like a blacksmith shop on Wall Street. For reasons I cannot fathom, no one has yet been able to drive a silver spike through the heart of special and opaque privilege in America's markets.

Our competitors clearly realize that the days of special privilege may be numbered. With "Direct +" we have seen the emergence of a hybrid system – a kind of ECN until the trading gets tough. But like the Prius – and I am a fan of the Prius – this hybrid is a welcome improvement, but it is one that does not solve the basic problem.

Specialists will still enjoy the ability to use special access, reserve files and order types not permitted to others.

When a stock runs too quickly, a specialist can effectively pull the plug and put orders back in manual control mode – the result being that orders are no longer filled in the order in which they are received.

To quote a recent Traders Magazine article, “the combination of the specialist’s display book and Direct + does not an ECN make.”

The core problem with a hybrid model is that access to trading is captive to the unequal and unfair rights of a few to the detriment of the many. A flat, transparent electronic structure is the only method to serve all.

With this in mind, we launched some brand-new and we believe innovative data products this week that bring a new level of transparency to trading activity in the markets. One is particularly interesting. Academics have studied floor-based trading patterns as they relate to noise levels – and by this I meaning actual shouting and exclaiming on a trading floor. NASDAQ has a new product called Market Velocity which measures the equivalent of electronic market “noise.”

Market Velocity provides the high-technology version of market noise and activity levels found on a physical trading floor. A key benefit of NASDAQ’s Market Velocity is that the information is available simultaneously to all investors, not just to those physically present. Market Velocity indicates the level of market activity in individual NASDAQ stocks by measuring the frequency and share volume in aggressively priced orders.

It can indicate changes in market direction, momentum or liquidity in each stock, enabling users to imply future price movements and trends.

Looking ahead for the balance of the year, our priorities are very straightforward. We will complete the integration of INET as quickly and smoothly as possible. We will continue our efforts to increase our share of trading in NYSE-listed stocks.

We will leverage our market structure by expanding our suite of issuer services to win new listings, dual listings, and switches. And we will continue to execute well on our cost reduction strategy while building the value of our proprietary data products. We see significant opportunities for innovation in areas like crosses. We will roll-out our IPO cross on May 30 and the IntraDay cross is planned for the early in the third quarter.

We also see a market today that – in many respects – is already trading in a Reg-NMS fashion. We are convinced that, when in place, Reg NMS will lead to higher volumes and new opportunities for those prepared and equipped to seize them.

**At NASDAQ, over the past thirty-five years, we have created the market of the future by responding to challenge with technology and innovation. And we look forward with confidence to working with all of you here today to respond to those market challenges – and opportunities. Thank you.**

**# # #**