



## **Robert Greifeld at The Executives' Club of Chicago**

Title: "The U.S. Capital Markets"  
Date: June 15, 2004  
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Venue: Executives' Club of Chicago

MILES WHITE, Executives' Club of Chicago Chairman:

It's my pleasure to introduce our speaker, Bob Greifeld. There are few people in the world as well qualified as Bob to deliver remarks on the U.S. capital markets. This is particularly true as the markets become increasingly wired, since Bob has spent his career at the intersection of trading and technology. He's a firm believer in and vocal advocate for the power of electronics combined with the forces of competition to provide a better outcome for investors.

Bob was instrumental in creating BRUT, one of the earliest electronic communications networks, a company NASDAQ announced its intention to acquire just last month.

Bob has been a strong voice on Wall Street in supporting capital markets reform and modernizing capital markets structure. In January, he spearheaded the NASDAQ Stock Market's unique dual listing program, which called increased attention to issues of market structure.

Before joining the NASDAQ as president and chief executive officer in 2003, Bob served as executive vice president for SunGard Data Systems, Inc., where he managed SunGard's sell side businesses, as well as its buy side transaction routing business.

Bob received his MBA from New York University's Stern School of Business, where his graduate thesis was, presciently, on the operation of the NASDAQ Stock Market.

Ladies and gentlemen, please join me in welcoming Bob Greifeld.

Mr. ROBERT GREIFELD (President/CEO, NASDAQ): Thank you for that kind introduction and for having me here today. It's truly an honor to address such a distinguished group. Before I begin I would like to comment. I'm very happy to be here in Chicago, in that Chicago did stop Roger Clemens from going 10 and 0. I'm a life long Yankee fan and when he retired I said, that's good, he had a great career. And when I heard he returned to pitch, I said, well, he probably has lost something off his fastball; he won't do too much for Houston. But to think of him going 10 and 0, that was too much of an insult.

When we think about NASDAQ, we know NASDAQ has been identified with technology and we are proud of that. But the essence of NASDAQ is about innovation and entrepreneurship. First and foremost, NASDAQ is about people like you who are willing to take a challenge, to take a risk and to challenge the status quo. It is that spirit that will ultimately drive the success of our economy and the U.S. capital markets.

What I would like to talk about today is a sense of where the U.S. equity markets are, our mission at NASDAQ and why I think Sarbanes-Oxley is good for American business.

Backing up, I've been at NASDAQ coming on 13 months and I remember very clearly, when I had accepted the job, there were a certain number of press interviews set up. I wasn't going to begin the job for another three weeks, but I knew that the press was not going to let me say, I'll get back to you after I start. So I was nervous about the interviews. There were clearly a lot of things about NASDAQ I did not understand and I prepared. But as well as I prepared, I could not have anticipated the very first question. And that very first question was, Bob—and it was a New York City reporter—what are you going to do to make the index go higher? And at first I thought it was a joke, but I realized it wasn't. And in the weeks to come I got the question again and again. But that very first time, I said, well, if I have any control over it, I'll make it go higher. Why would I want it to go lower? So, I am committed to that when I have control. It's a legitimate question in a certain way, because it's hard to define NASDAQ, when you're talking about a well-known index, a market and a business.

One, NASDAQ is a publicly held corporation and we are a for-profit organization. We do have a special role in the capital formation in this country and we have certain restrictions on our operation. First, we are directly regulated by the SEC and they regulate us in a very thorough and complete fashion. In addition, in our corporate charter, we put the rights of investors above our own profit motive. In our charter we also have limitations on ownership. NASDAQ cannot be owned by the World Wrestling Federation, nor can it be owned by Martha Stewart for that reason—also.

So when we think about NASDAQ as a for-profit company, we have four business lines that we're in. One is the transaction business. That is the actual operation of the market—the trading that transpires every day. When we think about the economy for 2004, we truly see a tale of two cities. In January, the NASDAQ market averaged 2.4 billion shares per day. It was like 1999 all over again. The retail investor was back in the market, the institutional investor as a proxy for the retail investor was in the market. And the volume stayed at a relatively high level through most of the year, but in May we fell off a cliff. Our average volume in May is 1.4 billion shares and that volume is carrying through in June. So when we think about our success as believed in the market in January, we as a for-profit company did very well. When investors are concerned about geopolitical situations, or they're concerned about getting a fair deal from the market or the companies they invest in, then we do not do so well.

Another business we're in is the listing business. This business is IPO's and obviously existing companies. We do have good news on that front. So far this year NASDAQ has brought 76 companies to market—76 IPO's. That compares to eight at this time last year. In all markets for all of 2003 there are only 83 companies

brought to market. So NASDAQ alone has done 76. And even more encouraging, we have 150 companies in the application backlog. These companies have chosen to go public in this time. Now, obviously, there is a yield ratio for those companies, but 150 is just dramatically higher than anything we've seen since 1999 or 2000. Here in Chicago, and the central region, we have 100 companies that are listed on the NASDAQ Stock Market with a combined market capitalization of over \$74 billion. So far in 2004 we've had 16 IPO's in this market. They are led by companies such as Standard Parking—Orbitz which is here today—and Gander Mountain.

So those are the two main businesses that we're in. NASDAQ also has a market data business. So when you look at a real time quote terminal, we are providing that information. In addition, we also have a financial products business. The main product there is what's known as the triple Q's, which is an index that tracks the NASDAQ 100 Index.

Then the question is: These are the businesses you're in, but Bob, what is your strategy going forward?

Our strategy is very simple: We want to be the premier U.S. equity marketplace and we'll judge our success along that mission by the number of IPO's we bring to market relative to our competition, by the number of listings we have in our market, relative to our competition and the share of trading that we do in stocks that list on the NASDAQ market or on other markets.

We are not in the business of setting up overseas markets. We are not in the business of getting into single stock futures. We're not in the business of developing software. And I highlight that because these were the paths that we were going down, before we decided to restructure and narrow our focus.

We have also recognized that if we're going to be successful in being the premier U.S. equity market, we have to redefine the debate about markets in this country. For the last 10 to 15 years, corporate America, led by the CEO's and senior management, have thought about their listing as a branding activity.

Now, we're not against brand. We think brand is important and we at NASDAQ have done, in my opinion, a phenomenal job of building the NASDAQ brand up over the last 10 to 15 years. But when we look at our primary product, what are we here to do as a market? Our product is to bring investors together in the most efficient and effective manner that we can. And that's what we have to focus on. And we can measure how well we do that and that's one of the advantages of our particular situation. You can measure how tight the spread is between buying and selling interest in your market compared to others. You can measure how fast you provide an execution to investors. You can measure how deep the liquidity pool is.

Now, when we think about our structure here in the States, it was an accepted wisdom that people made a listing decision for life. And one of the things we're trying to do with corporate America is say that the listing decision has to be re-evaluated. Probably not every year, but certainly every two, three or four years you need to evaluate this decision as you do other business decisions. And to the extent that corporate America does not do that, you take away the incentive for the markets to compete, to innovate, and to better serve investors. It is no coincidence that we have a leading floor-based market, when our European and Asian competitors switched to electronic markets over a decade ago. So we at NASDAQ

are about performance and we are going to execute every day against that mission. We will come to a lot of folks in this room and to people across the country saying, you need to look at the performance of the market. How are we treating investors?

And we bring this message forward to NASDAQ listed companies. We have 3,500 listed companies in our market and we have certain NASDAQ companies who believe they are NASDAQ for life, who grew up with NASDAQ. But that is not the right mental set that we need from corporate America. Corporate America needs to look at this on a rigorous and continuous basis.

Public corporations—and I spend a lot of time with this—certainly face a lot of challenging issues today. And Sarbanes-Oxley is not the least of these issues. I relate to Sarbanes-Oxley in a personal way. When I was an entrepreneur for 12 years, I took pride in understanding the detail of every invoice and every feature on my software products. The largest organization we had before we sold the company was 150 people. I stand guilty in front of you folks, today, of being a micromanager and that's not fun for the people underneath. But we sold our company in 1999 and within three months I was responsible for a division over 3,000 people and 25 different operating companies. Clearly, the management skills I utilized when I was an entrepreneur were not going to work!

So one of the first things I did was to commission a multi-million dollar project to build an analytical database which would suck in all the information from the general ledger. And this analytical database would show to me the hot spots where I needed to spend my management time. At the time I called it managing by remote control. But I would lay awake at night, saying is this remote control pointed in the right direction? So when Sarbanes-Oxley first came out and this was prior to my time here at NASDAQ, it gave me comfort. It gave me comfort and I knew that people were standing behind these numbers and were actually confident that these numbers were correct. And we ran a system where we had cascading approvals of the numbers. And when we look at Sarbanes-Oxley 404 today, to me that's introducing the process part of the procedure. So now we know that the processes are set.

Now, can there be things about this process that are a burden? I'm sure. We have to understand that this legislation was put together in a special time. A representative of Oxley just last week said that when this legislation was put together, there was no input from the business community. The business community did not want to step forward and be counted, based upon what has transpired. But anybody who has run a large organization, and I've only been in this situation for four or five years, so it's fresh in my mind and I had to get dropped into cold water—anybody who has run a large organization knows that the process has to be there. Clearly it is a necessary component for us to represent to investors that we're worthy of their dollars—their investment dollars *and* their trust. So we have people, we have process. But the most important part of any situation is the culture. You cannot legislate morality. We must have the proper tone at the top. So we need each of these elements to fire on all cylinders. We need people, process and culture and I think we'll do a lot to, one, have 2.4 billion shares a day as an average, as opposed to 1.4.

Now, what I do have to say is a disclaimer: NASDAQ believes that companies going public are a good thing, if that's a surprise to you. And clearly when there's a lot of publicity about Sarbanes-Oxley and it's a burden to companies and companies don't want to go public, that's not a good thing for NASDAQ. I don't think it's a good thing

for many people. But I do put that out there and it's truly in the spirit of Sarbanes-Oxley, right?

What I do get upset about is when I hear CEO's saying that they will not enter a new business because of Sarbanes-Oxley and that's where I think we've crossed a line. Right now at NASDAQ I mentioned we have four businesses that we're in. We're actively considering one or two more initiatives. I cannot conceive of a situation where Sarbanes-Oxley would stop us from choosing one or two of those initiatives. In addition, I'm very happy to say the 150 firms that are in the pipeline are coming to market with the full understanding that they will be governed by Sarbanes-Oxley and all the good and the bad associated with it. So I am clearly happy that these folks realize that they can innovate in spite of, or because of, what happens due to Sarbanes-Oxley.

I have spoken a little bit about my role today but clearly one of the best things about my job is having dialogues with CEO's and senior executives like yourself. I hope I have given you several things to think about. At NASDAQ, we're focusing on good regulation, we're focusing on continuing to be a driving force in the U.S. economy. We can only do this by working closely with you. I thank you for your time and I do very much look forward to your questions. Thank you.