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Consolidation in the Exchange Sector as a response to Globalization and Competition – The case of NYSE Euronext

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FIAB Annual Meeting
 Lima – Peru
 September 8, 2009

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Agenda

Consolidation in the Exchange Sector as a response to Globalization and Competition – The case of NYSE Euronext

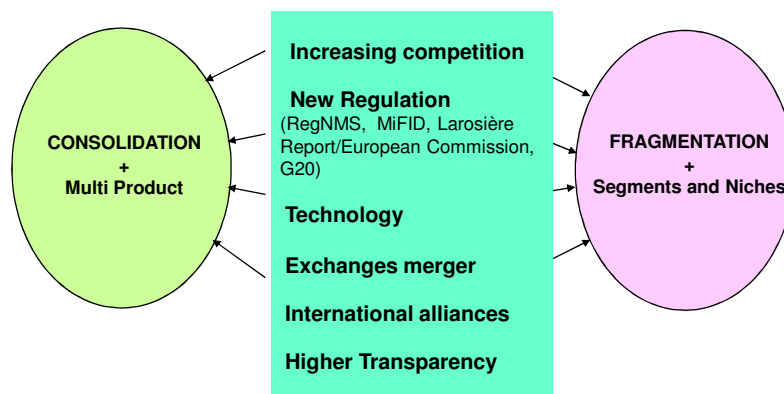
- **Main drivers of globalization in the exchange business**
 - Technology developments
 - Competition forces
 - Demutualization/Going Public
 - Regulation/competition
- **NYSE Euronext response**
 - M&A activity: gaining scale
 - Technology investments
 - New products and services
- **Emerging from the financial crisis: opportunities and challenges ahead**

 **NYSE Euronext.**

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Current and Expected Exchange Landscape

What is happening



Main drivers of globalization: technology

Communication and data processing technological "revolution" impacted significantly on the way exchanges operate, through electronic trading, clearing and settlement:

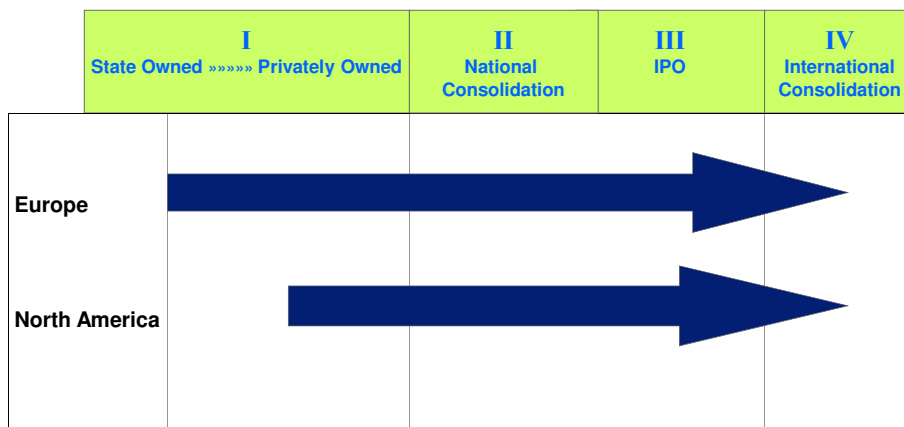
- electronic trading introduced enormous economies of scale and brought marginal cost of trading to "zero"
- reduced "barriers to entry" to new ventures
- opened the markets to other geographies players, through remote memberships
- enlarged the product range to a wider variety of tradable products: bonds, futures, options, ETFs, CDS and other OTC products
- more recently, developed new trading strategies: e.g. high-frequency trading and co-location, all enabled by extremely low latency

Main drivers of globalization: competition forces

- * Consolidation of Exchanges has moved cross-continent
- * Relevant Exchanges must be multi-product (cash equities, derivatives, fixed income, ETFs)
- * New trading venues are emerging to attack incumbents and explore market segments or niches
- * Internalization may turn users into competitors
- * Liquidity is being fragmented

Main drivers of globalization: demutualization/going public

Global Trends in Exchanges



Main drivers of globalization: regulation/competition

In both US and Europe regulation systems evolved with the aim to increase competition and improve market efficiency:

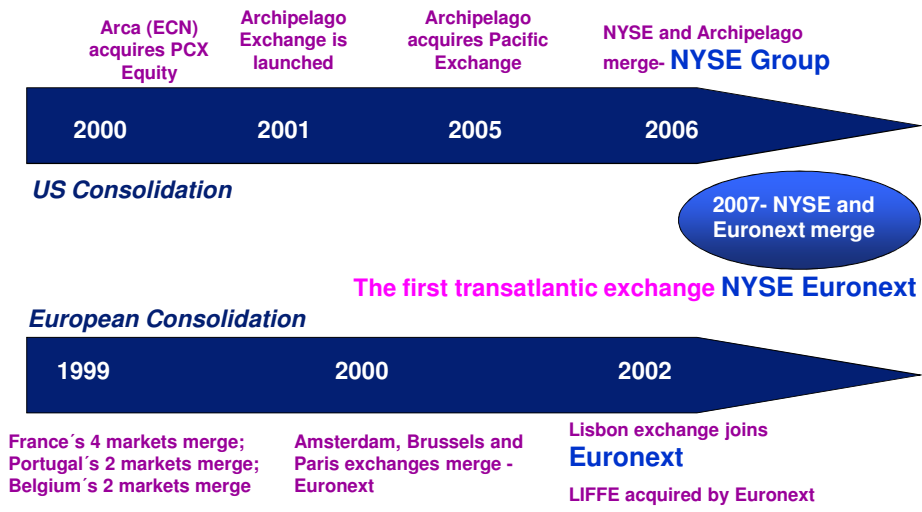
- In the US with **Regulation National Markets System** (Reg NMS):
- In Europe with **Markets in Financial Instruments Directive** (MiFID):
- Clearing and Settlement: pressure of The Code of Conduct and the T2S initiative

*** Regulators are harmonising rules and cooperating** (IOSCO, CESR, Euronext College of Regulators, SEC and mutual recognition)

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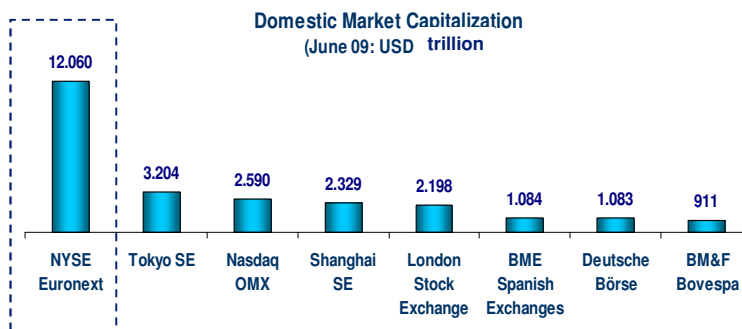
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NYSE Euronext response: M&A activity – gaining scale



NYSE Euronext response: M&A activity - gaining scale

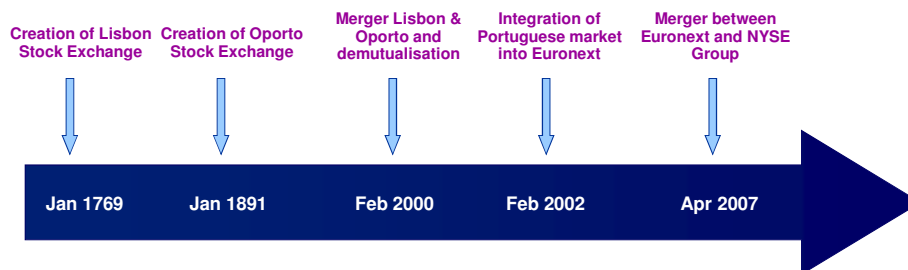
NYSE Euronext domestic equity market cap is greater than that of the following 5 exchanges combined



Source: World Federation of Exchanges, June 2009

NYSE Euronext response: M&A activity – gaining scale

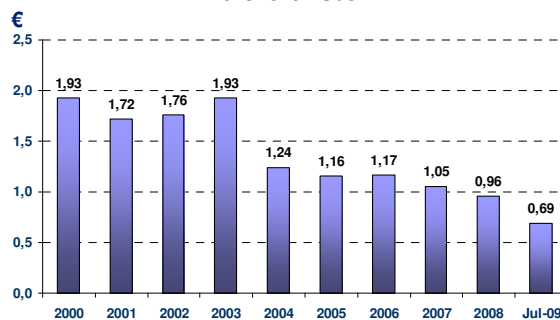
Portuguese Exchange Example



Today, Euronext Lisbon is part of NYSE Euronext

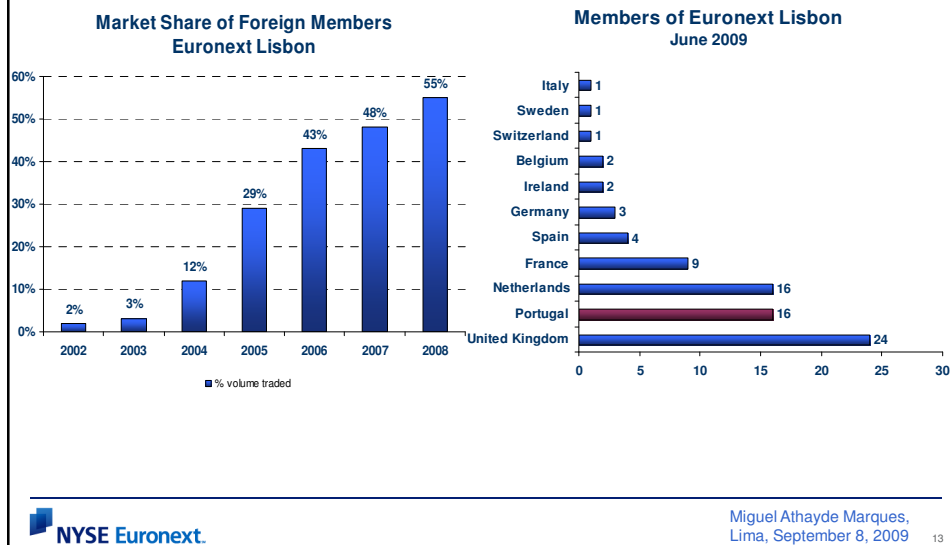
Portuguese Exchange Example

Average Exchange Fee per Trade
Euronext Lisbon



In Euronext Lisbon, the average fee per trade in the cash market in July 2009 is about 1/3 of the value in 2003.

Portuguese Exchange Example



NYSE Euronext response: technology approach

FOCUS

Global access
Expanding capacity
Reducing latency
Improving resilience
Integrating technology platforms

- * Leverage on a global distribution network, both for order routing and market data, via extending the US **SFTI network** to Europe (and Asia)
- * Converge different trading systems into one **Universal Trading Platform**, (UTP) providing also high-throughput, low-latency trading (CCG – UTP – CCG roundtrip under 1 millisecond)
- * Allow customers to access any NYSE Euronext feed via a unique set of physical circuits: **Common Customer Gateway** (CCG)
- * Roll out of a single portal and file transfer infrastructure for accessing historical data of all NYSE Euronext markets

NYSE Euronext response: new products and services

2005 – **Alternext**: dedicated cash market segment in Europe to medium and small companies

2007 – **BlueNext**: NYSE Euronext environmental exchange

2008 – **NYSE Liffe**: development of derivatives business in the US

2008 - **Amex Options**: development of option business through acquisition

2009 - **Smart Pool**: the dark pool run by NYSE Euronext, large order transaction platform rolled out on 14 European markets

2009 - **NYSE Arca Europe**: pan-European Multilateral Trading Facility (MTF) extending trading to blue-chip stocks from 11 European countries.

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➤ Main drivers of globalization in the exchange business

- Technology developments
- Competition forces
- Demutualization/Going Public
- Regulation/competition

➤ NYSE Euronext response

- M&A activity: gaining scale
- Technology investments
- New products and services

➤ Emerging from the financial crisis: opportunities and challenges ahead

Emerging from the financial crisis: business consolidation

- Consolidation / Integration of exchanges is going forward ...but also of some trading venues

- New trading venues and internalization are intensifying competition
...will liquidity still be sticky?

...price competition is challenging revenues; alternatives to sustain profitability must be found...

Emerging from the financial crisis: business consolidation

- NYSE Euronext: Belgium, France, Netherlands, Portugal, UK (LIFFE), USA (NYSE), (Qatar)
- NASDAQ OMX: Denmark, Dubai, Estonia, Finland, Iceland, Latvia, Lithuania, Sweden, US(Nasdaq).
- London Stock Exchange: Italy, UK (LSE)
- Wiener Börse: Austria, Czech Republic, Hungary, Slovenia



Emerging from the financial crisis: dealing with competition

Already operating in the European markets



- Start in March 2007
- 15% of European Shares in 2009
- 21% of FTSE 100

TURQUOISE

- Start September 2008
- 5% of European shares in 2009
- 8% of FTSE 100



NYSE Arca Europe
Launched in March 2009
Smart Pool



- Start in Europe in October 2008
- 2.5% of European Shares in 2009
- 5% of Footsie 100
- 18% of MIB 40

USA:

- Start in 2006
- 10% market share in share trading



- Started September, 2008



Baikal: Regulatory approval in June 2009



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Emerging from the financial crisis: post-trade

Clearing and settlement in Europe are under the pressure of

→ **The Code of Conduct** : improve transparency and interoperability in European markets

→ **T2S initiative**: the European Central Bank is developing a single settlement platform for equities in euro (2013)

→ **Increased competition or consolidation**: recent comers in European markets

- * **EuroCCP (DTCC)** (Turquoise, SmartPool, NYSE Arca Europe)
- * **EMCF** (Chi-X, Nasdaq OMX Europe, Bats Europe, Nordic Exchanges)
- * **Link-Up Markets initiative**: 8 CSDs to interoperate and create single access point



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Emerging from the financial crisis: regulatory developments

Larosière Report (2009):

Derivative products should become more standardized and simplified

At least one well-capitalized clearing house for credit default swaps should be created in the EU

Guarantee that issuers of securitized products retain on their books for the life of the instrument a meaningful amount of the underlying risk

G20 Report Nov 2008

Structured finance products may have to become more standardized and be placed on organized exchanges (rather than being traded over-the-counter) → improve liquidity, transparency and pricing

... still excessive regulation and supervision may deter innovation and advancement, which are crucial to the financial sector...

Emerging from the financial crisis: regulatory developments

Central Counterparty Services: are offered by Stock Exchanges reducing substantially counterparty risks and easing risk management

Nov. 2008: NYSE Euronext announces the availability of a booking, clearing and settlement system for Credit Default Swaps in Europe, anticipating all competitors

Dec. 2008: Euronext Lisbon announces a new market segment for Commercial Paper

Stock Exchanges are prepared to comply with the most demanding transparency and information requirements by regulators...

... still, it is crucial in Europe to overcome serious MiFID gaps

Emerging from the financial crisis: economic recovery

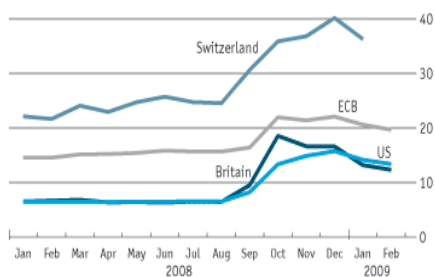
- Recovery of economic growth from “negative wealth effect”. What shape of the curve?
- Availability of capital to invest: What pace of recovery for primary markets?
- Increasing interest rates: “crowding out” of government financing?
- Inflation: unwinding “monetary easing”?

Emerging from the financial crisis: economic recovery

Monetary “Easing”

Extra-strong mints

Central-bank assets, % of GDP



Source: UBS

Fiscal Stimulus

Let's get fiscal

Stimulus packages as % of GDP

	2008	2009	2010	Total*
Canada	0.0	1.5	1.3	2.7
France	0.0	0.7	0.7	1.3
Germany	0.0	1.5	2.0	3.4
India	0.0	0.5	-	0.5
Italy	0.0	0.2	0.1	0.3
Japan	0.4	1.4	0.4	2.2
Britain	0.2	1.4	-0.1	1.5
United States	1.1	2.0	1.8	4.8

Source: IMF estimates

*Subject to rounding

Source: The Economist March 2009

