

MARKET SNAPSHOT

	U.S.	EUROPE	ASIA
STOXX 50	2,646.65	-11.65	-0.44%
FTSE 100	5,917.24	-41.10	-0.69%
DAX	7,640.22	-31.88	-0.42%

# NYSE Cedes Autonomy to 12-Year-Old Market That Expanded Fivefold

By Inyoung Hwang & Nina Mehta - Dec 21, 2012 12:59 AM ET

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The owner of the New York Stock Exchange, whose trading floor helped fuel Warren Buffett's fortune and financed industries from shipping to semiconductors, is about to be bought by a 12-year-old energy market operator founded with money from a legal settlement.

IntercontinentalExchange Inc. (ICE) agreed to buy NYSE Euronext for \$8.2 billion in cash and stock after its own shares surged fivefold since going public in 2006. Chief Executive Officer Jeffrey Sprecher will lead the combined company that includes the biggest U.S. equity market company and second- largest European futures exchange, with NYSE's Duncan Niederauer relegated to president, according to a statement yesterday.

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Traders work at the InterContinentalExchange Inc. booth on the floor of the New York Stock Exchange in New York. While ICE agreed to preserve the NYSE trading floor in lower Manhattan, it will have a harder time restoring the Big Board's glory. Photographer: Jin Lee/Bloomberg

Two hundred twenty years after its founding at the foot of Wall Street and 15 years since it could claim dominance over U.S. markets, NYSE will transfer its ownership to a company based in Atlanta. While Sprecher's IntercontinentalExchange, known as ICE, agreed to preserve the New York Stock Exchange trading floor in lower Manhattan, he will have a harder time restoring the Big Board's glory.

"The founders of the NYSE are rolling in their graves," said Phil Panaro, a securities industry consultant who advised NYSE after the ouster of former Chairman Richard Grasso. "NYSE is the premier brand. They're supposed to be the Big Board and now they're basically an afterthought. It was NYSE doing the acquisitions five years ago and now you have them being acquired by an exchange that couldn't have been mentioned in the same sentence with the New York Stock Exchange."

## Shares Surge

Shares of NYSE Euronext (NYSE) surged 34 percent to \$32.25 yesterday, the most since going public in 2006 and

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NYSE reduced employees to 3,077 at the end of last year, 18 percent below what it was in 2008. Over the same period, ICE's

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staff has grown 27 percent to 1,013.  
Photographer: Jin Lee/Bloomberg

the highest level since August 2011. Its market value expanded to \$7.8 billion from \$5.8 billion a day earlier. ICE added 1.4 percent to \$130.10 yesterday, bringing its capitalization to \$9.5 billion.

While Sprecher gets more than an equity venue in NYSE Euronext -- its London-based Liffe unit is the second biggest derivatives exchange in Europe -- he and Niederauer speculated yesterday that the stock franchise will benefit as regulators work to simplify markets in the U.S. Equity trading occurs on 13 different exchanges and about 50 privately owned venues such as dark pools.

"It's clear that there's going to be change," Sprecher said by phone yesterday. "The business for the New York Stock Exchange can only get better."

## 'Great Day'

ICE will pay \$33.12 a share, 38 percent more than the closing price on Dec. 19, according to a statement yesterday. Both boards approved the proposal and the companies expect to complete the transaction in the second half of 2013.

"This is a great day for the NYSE," Niederauer said in a conference call. "The rich history and heritage of the NYSE will carry on here in New York and across Europe as an organization that is well positioned for the future."

The switch to decimal share pricing in 2001, growth in new technologies, the fragmentation of U.S. equity markets and the slump in daily equities volume contributed to the NYSE's decline. The Big Board, which lists Buffett's Berkshire Hathaway Inc. and his share picks such as Coca-Cola Co. and Wells Fargo & Co., has seen its share of trading in stocks on the exchange plunge to 21 percent from 82 percent a decade ago.

## Shrinking Pie

U.S. equities volume averaged 6.4 million shares a day in 2012, an 18 percent decline from last year's daily average of 7.8 billion shares and down 34 percent from 9.8 billion shares a day in 2009, according to data compiled by Bloomberg. To counter shrinking activity, U.S. exchanges are trying to diversify by expanding their derivatives and technology units.

NYSE's market value has shrunk by more than half since its IPO in 2006 and profit has declined in six of the last nine quarters, according to data compiled by Bloomberg. The company reduced employees to 3,077 at the end of last year, 18 percent below what it was in 2008. Over the same period, ICE's staff has grown 27 percent to 1,013.

"NYSE was having a hard time growing," Joseph Cangemi, head of equity sales and trading at ConvergeEx Group in New York, said by phone. "It's got a great brand but that brand is in the equity markets. By allowing themselves to be combined with ICE they have deeper penetration into a broader mix of asset classes with a higher concentration of volume and order flow."

Cangemi, who worked at trading firms on Wall Street in the late 1970s and early 1980s, has spent 25 years on the New York Stock Exchange floor. ConvergeEx Group was formed by Bank of New York Co. in 2006 to take advantage of regulatory changes that encouraged

more electronic trading among rival exchanges and weakened NYSE's clout.

## London Expansion

ICE expanded into futures from over-the-counter energy products in 2001 when it bought the London-based International Petroleum Exchange. It converted IPE's open-outcry or floor-based structure to computer-based trading in 2005. The company purchased the New York Board of Trade in 2007, renaming it ICE Futures U.S., and ceased all floor trading in its options contracts on Oct. 19 as it switched exclusively to electronic buying and selling.

"You have to go with the newer ideas and new ways of doing business," Francis Maglio, 68, a former broker and NYSE member from 1973 until the exchange's initial public offering in 2006, said in a telephone interview. "They became progressive and thought outside of the box," Maglio said. The NYSE "did this for 200 years, but that's not what's happening now."

The Big Board's reputation has faded over the last decade as scandals highlighted the potential for collusion on the NYSE floor and faster technology reduced the need for middlemen. In September 2003, Grasso ended a 36-year career at the exchange as regulators and directors said a \$140 million pay package called his [leadership](#) into question.

## Reverse Merger

Grasso's successor, John Thain, orchestrated the 2006 reverse merger that gave the NYSE control of Chicago-based Archipelago Holdings Inc. and turned the member-owned exchange into a public company. By then, regulatory directives aimed at lowering transaction costs for investors were in the process of cutting the NYSE's market share. NYSE combined with Paris-based Euronext NV in 2007 to expand globally and into interest rate and equity-index futures.

Competition has driven down the amount U.S. exchanges can charge for executing orders as the number of trading venues increased to about 60 compared with fewer than 20 a decade ago. Brokers who owned the NYSE 10 years ago earned 6.25 cents or more when buying and selling 100 shares. Now, the spread is a penny for the most heavily traded stocks.

## Software Program

"An exchange today is really just like a software program, it's not a physical thing," Michael LaBranche, CEO of the NYSE's largest specialist operation in the first half of the last decade, said in a telephone interview. LaBranche sold its market-making business to Barclays Plc in 2010 because "we thought the equities business had changed too adversely and didn't think there was a future," he said.

LaBranche's company had more than 300 people working on the floor in the early 2000s and represented about 120 of the companies in the Standard & Poor's 500 Index.

A takeover would mark an unusual success after more than \$32 billion of exchange takeovers failed since October 2010. Sprecher joined Nasdaq OMX Group Inc. CEO Robert Greifeld in an unsolicited bid for NYSE Euronext in April 2011. The offer, scuttled by the Justice Department seven weeks later, sought to derail NYSE's pending merger agreement with Deutsche Boerse AG.

## Energy Market

Sprecher founded ICE as an online marketplace for energy trading. Its seed capital came from settlement money collected in 1996 by his previous company, Western Power Group, tied to a lawsuit over an agricultural-waste burning power plant in Southern California.

ICE offers contracts based on European energy commodities such as Brent crude, natural gas and heating oil at its London-based ICE Futures Europe exchange. In the U.S., it offers futures on agricultural commodities such as coffee, cocoa and sugar as well as Russell stock indexes and currencies at ICE Futures. The company owns the world's largest clearinghouse for credit-default swaps, ICE Clear Credit LLC.

NYSE Euronext is “an iconic organization that is not playing the leading role it had for several hundred years,” Bruce Weber, dean of the Alfred Lerner College of Business and Economics at the University of Delaware, said by phone. He co-wrote “The Equity Trader Course” with Robert Schwartz and Deutsche Boerse CEO Reto Francioni.

“It’s not the management of the exchange so much but the transformation of the industry that moved away from cash-market trading, moved away from floor trading,” said Weber. “Almost every strength of the NYSE 20 years ago ultimately became weaknesses.”

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