

The Archipelago Exchange Calls for Reform of the New York Stock Exchange

-- Jerry Putnam, CEO of World's Largest Electronic Stock Exchange, Testifies to Congress in Favor of Market Structure Changes Centered on Competition, Customer Choice --

Washington D.C. – October 16, 2003 – In testimony to the Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises on October 16, 2003, Jerry Putnam, CEO of the Archipelago Exchange (ArcaEx), called for pro-competitive changes in the listed marketplace and an end to the NYSE monopoly. Putnam drew parallels to the mid-1990's Nasdaq scandal and the ultimate reform of the OTC marketplace that opened the door to innovation, competition and an improved and dynamic OTC market. He testified that reform of the Inter-Market Trading System (ITS) and the associated "trade through" rule would lower barriers to entry in the listed market, encouraging competition to the ultimate benefit of investors.

Putnam pointed out that "the seeds of ArcaEx were sown in the immediate aftermath of the Nasdaq scandal" with Archipelago creating a "level playing field for all investors in an industry filled with conflicted insiders and unnecessary intermediaries." According to Putnam, that lowered the barriers to OTC competition and resulted in "the introduction of rapid technological innovation, unprecedented cost efficiencies, and an 'investor comes first' ethos".

Putnam went on to say, "The market structure underlying our listed markets – in contrast to the vibrant and healthy OTC marketplace – evidences all the lethargic and inefficient symptoms of anti-competitive and monopolistic pathology."

"Over the years, the NYSE has installed anti-competitive barriers that have taken several shapes and forms. Today, however, the manifestation of NYSE anti-competitive barriers is the ITS Plan, its 'trade through' provision and the ITS Operating Committee that 'administers' the ITS Plan," Putnam said.

He went on to say that, "Like other exchanges, ArcaEx was compelled to link to the NYSE via ITS and sign onto the ITS Plan, which includes a general prohibition on 'trade through.' In today's electronic world, it limits customer choice to the lowest common denominator of the slowest markets, which often consists of conflicted specialists who use 'trade through' to their profitable advantage."

Putnam stressed that, "...our experience teaches us that the NYSE uses the ITS Plan to suit its competitive purposes. It also hypocritically ignores and violates the ITS Plan when its terms do not meet its competitive purposes."

Putnam pointed out that the SEC's pilot program for a "trade through" exemption introduced for the most active Exchange Traded Funds has been a major success for investors and for best execution. He encouraged regulators to consider broadening this type of reform to other securities.

Putnam also discussed the ArcaEx regulatory model, which is designed to eliminate conflicts by keeping the lines between business and regulation separate. In this case, the exchange business is operated by ArcaEx, while regulation of the exchange is carried out independently by the Pacific Exchange.

The full text of Putnam's testimony is available on the Archipelago Exchange web site at www.archipelago.com.

About the Archipelago Exchange

Dedicated to openness, transparency and equal access to equity markets, the Archipelago Exchange (ArcaEx) is a dynamic agent of change in the financial services industry. ArcaEx's leading-edge technology, open architecture and unbiased trading platform provide investors with fast, cost-efficient and anonymous market access. On October 25th, 2001, the SEC approved the rules creating ArcaEx. The exchange features a trading system that employs a proprietary algorithm to search for the best execution for each order. ArcaEx is the first totally open, fully electronic stock market to trade in all New York Stock Exchange, NASDAQ, and American Stock Exchange securities. ArcaEx is regulated by the Pacific Exchange. The Archipelago ECN, a precursor to ArcaEx, was one of four original ECNs, formed in December 1996 with Townsend Analytics. For more information about the Archipelago Exchange, please visit www.archipelago.com.

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