

NYSE Group, Inc.
Form 10-K
March 31, 2006

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2005

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission file number 001-32829

NYSE Group, Inc.

(Exact name of registrant as specified in its charter)

DE
State or other jurisdiction of
incorporation or organization

20-2786071
(I.R.S. Employer
Identification No.)

11 Wall Street, New York, New York
(Address of principal executive offices)

10005
(Zip Code)

(212) 656-3000

Registrant's telephone number, including area code
Securities registered pursuant to Section 12(b) of the Act:
None

Title of each class

Name of each exchange on which registered

Common Stock par value \$0.01 per share

New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act:

None

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. **As of March 29, 2006, there were approximately 155.5 million shares of NYSE Group, Inc. common stock par value \$0.01 per share outstanding.**

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CERTAIN TERMS

Throughout this document, unless otherwise specified or if the context otherwise requires:

"NYSE Group," "we," "us" and "our" refer to NYSE Group, Inc., a Delaware corporation, and its subsidiaries, which, following the merger, include the NYSE and Archipelago;

"NYSE" refers to (i) prior to the completion of the merger, New York Stock Exchange, Inc., a New York Type A not-for-profit corporation, and (ii) after the completion of the merger, New York Stock Exchange LLC, a New York limited liability company, and its subsidiaries, including NYSE Market, Inc., a Delaware corporation, and NYSE Regulation, Inc., a New York not-for-profit corporation;

"Archipelago" refers to, prior to and following the completion of the merger, Archipelago Holdings, Inc., a Delaware corporation, and, where the context requires, its predecessor, Archipelago Holdings, LLC, a Delaware limited liability company;

"NYSE Arca" refers to the Archipelago Exchange, or ArcaEx®, and the NYSE Arca, Inc., a Delaware corporation (formerly known as the Pacific Exchange, Inc.), and NYSE Arca Equities, Inc., a Delaware corporation (formerly known as PCX Equities, Inc.); and

"merger" refers to the mergers combining the NYSE and Archipelago under NYSE Group, which were completed on March 7, 2006.

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains statements and from time to time our management may make statements that may constitute "forward-looking statements" within the meaning of the safe harbor provisions of The Private Securities Litigation Reform Act of 1995. In some cases, you can identify these statements by forward-looking words such as "may," "might," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential" or "continue," and the negative of these terms and other comparable terminology. These forward-looking statements, which are subject to known and unknown risks, uncertainties and assumptions about us, may include projections of our future financial performance based on our growth strategies and anticipated trends in our business. These statements are only predictions based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements. In particular, you should consider the numerous risks and uncertainties described under "Item 1A. Risk Factors."

These risks and uncertainties are not exhaustive. Other sections of this report describe additional factors that could adversely impact our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible to predict all risks and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy or completeness of any of these forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. We are under no duty to update any of these forward-looking statements after the date of this report to conform our prior statements to actual results or revised expectations and we do not intend to do so.

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Forward-looking statements include, but are not limited to, statements about:

our business' possible or assumed future results of operations and operating cash flows;

our business' strategies and investment policies;

our business' financing plans and the availability of capital;

our business' competitive position;

potential growth opportunities available to our business;

the risks associated with potential acquisitions or alliances by us;

the recruitment and retention of our officers and employees;

our expected levels of compensation;

our business' potential operating performance, achievements, productivity improvements, efficiency and cost reduction efforts;

the likelihood of success and impact of litigation;

our protection or enforcement of our intellectual property rights;

our ability to successfully implement and operate the NYSE Hybrid MarketSM;

our expectation with respect to securities markets and general economic conditions;

our ability to keep up with rapid technological change; and

the impact of future legislation and regulatory changes on our business.

We caution you not to place undue reliance on the forward-looking statements, which speak only as of the date of this report.

We expressly qualify in their entirety all forward-looking statements attributable to us or any person acting on our behalf by the cautionary statements contained or referred to in this section.

PART I

ITEM 1. BUSINESS

BUSINESS

Overview

NYSE Group was organized on May 2, 2005. As of December 31, 2005 and up until March 7, 2006, NYSE Group had no assets (other than the \$200 it received on December 29, 2005 from the sale of one share of its common stock to each of New York Stock Exchange, Inc. and Archipelago Holdings, Inc.) and had not conducted any material activities other than those incident to its formation. However, on March 7, 2006, upon the consummation of the merger of NYSE and Archipelago, NYSE Group became the parent company of New York Stock Exchange LLC, a New York limited liability company (which is the successor to New York Stock Exchange, Inc.), and Archipelago Holdings, Inc. In this annual report on Form 10-K "we" refers to NYSE Group, its two subsidiaries (New York Stock Exchange LLC and Archipelago Holdings Inc.) and each of their respective subsidiaries.

We are a holding company that, through our subsidiaries, operates and regulates two securities exchanges: the NYSE and NYSE Arca. We are a leading provider of securities listing, trading and information products and services. Although the trading platforms of the NYSE and NYSE Arca currently operate separately, we are actively integrating certain of their activities to achieve revenue and cost synergies.

For the fiscal year ended December 31, 2005, on a pro forma basis reflecting the merger, NYSE Group generated \$1.7 billion in revenues and approximately \$90 million in income from continuing operations.

The NYSE. The NYSE is the world's largest and most liquid cash equities exchange. The NYSE is approximately three times the size of the next largest cash equities market in the world in terms of aggregate market capitalization of domestic listed companies. The NYSE provides a reliable, orderly, liquid and efficient marketplace where investors meet directly to buy and sell listed companies' common stock and other securities. For 213 years, the NYSE has facilitated capital formation, serving a wide spectrum of participants, including individual and institutional investors, the trading community and listed companies. As of March 3, 2006, 2,684 issuers, which include operating companies, closed-end funds and exchange traded funds (or ETFs), were listed on the NYSE. Our listed operating companies represent a total global market capitalization of over \$22.5 trillion. In January and February 2006, on an average trading day, over 1.8 billion shares, valued at over \$69 billion, were traded on the NYSE. The NYSE operates an auction market in which orders are electronically transmitted for execution. Specialists on the trading floor are charged with maintaining fair, orderly and continuous trading markets in specific stocks by bringing buyers and sellers together and, when circumstances warrant, adding liquidity by buying and selling stock for their own account. Floor brokers act as agents on the trading floor to facilitate primarily large or complicated orders. In this report, we refer to this trading model as the "agency auction trading model."

NYSE Arca. NYSE Arca is the first open, all-electronic stock exchange in the United States and has a leading position in the trading of exchange-listed securities and ETFs. NYSE Arca is also an exchange for trading equity options. Through NYSE Arca, customers can trade over 8,000 equity securities and over 175,000 option products. NYSE Arca's trading platforms link traders to multiple U.S. market centers and provide customers with fast electronic execution and open, direct and anonymous market access. The technological capabilities of NYSE Arca's trading systems, combined with its trading rules, have allowed NYSE Arca to create a large pool of liquidity that is available to customers internally on NYSE Arca and externally through other market centers. On an average trading day, over 700 million shares, valued at over \$25 billion, are traded through NYSE Arca's trading platforms.

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SIAC. We also own two-thirds of the SIAC and SIAC's financial results will be reported on a consolidated basis with our results. SIAC is an important industry resource providing critical automation and communications services to the NYSE, AMEX and other organizations to support order processing, trading and the reporting of market information, among other functions. SIAC also provides system support for certain national market system functions and for important regulatory and administrative activities.

NYSE Regulation. We also play a critical role in the U.S. securities industry through our two SROs. As a not-for-profit company within our holding company, NYSE Regulation regulates the activities of member organizations through enforcement of SRO rules and federal securities laws. In addition, NYSE Regulation oversees compliance by listed companies with our financial and corporate governance listing standards. See " Regulation NYSE Regulation" for a discussion of our regulatory business.

Our Internet address is www.nysegroup.com. We make available free of charge, on or through the investor relations section of our website, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (SEC). Also posted on our website, and available in print upon request to our Investor Relations Department, are the charters for our Audit Committee, Human Resources & Compensation Committee and Nominating & Corporate Governance Committee, procedures for communicating with our directors, our Corporate Governance Guidelines and our Code of Business Conduct and Ethics, which governs our directors, officers and employees. Within the time period required by the SEC and the New York Stock Exchange, we will post on our website any amendment to our Code of Ethics and Business Conduct and Ethics and any waiver applicable to our senior financial officers, and our executive officers or directors. In addition, information concerning purchases and sales of our equity securities by our directors and Section 16 reporting officers is posted on our website.

Our Vice President and Head of Investor Relations, Gary Stein, can be contacted at NYSE Group, Inc., 11 Wall Street, New York, NY 10005, Attn: Investor Relations, telephone: (212) 656-5700, e-mail: InvestorRelations@nyse.com.

Business Structure

Our business consists of two market centers: (1) the NYSE and (2) NYSE Arca. The NYSE's business is operated mainly through two separate entities:

New York Stock Exchange LLC. New York Stock Exchange LLC is the entity registered as a national securities exchange. New York Stock Exchange LLC holds all of the equity interests of NYSE Market, NYSE Regulation and 66²/₃% of SIAC.

NYSE Market, Inc. NYSE Market, Inc. is a wholly owned subsidiary of New York Stock Exchange LLC. NYSE Market conducts the market activities of the New York Stock Exchange.

NYSE Arca's business is operated mainly through three separate subsidiaries:

NYSE Arca, LLC. NYSE Arca, LLC operates an all electronic trading venue for equity securities listed with NYSE Arca, the NYSE, Nasdaq, AMEX, as well as for ETFs.

NYSE Arca, Inc. and NYSE Arca Equities, Inc. NYSE Arca, Inc. and NYSE Arca Equities, Inc. operate an exchange for trading equity options listed on national markets and exchanges including the facilities, technology, systems and regulatory surveillance and compliance services required for the operation of a marketplace for trading options.

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The regulatory activities of the NYSE and NYSE Arca are conducted by NYSE Regulation, Inc. NYSE Regulation is a New York not-for-profit corporation whose sole equity member is New York Stock Exchange LLC. For a more detailed description of the activities of NYSE Regulation, see " Regulation NYSE Regulation."

History

We were organized under the laws of the state of Delaware in 2005 in connection with the merger of the NYSE and Archipelago, which was completed on March 7, 2006.

NYSE. The NYSE operates a floor-based auction stock market, with all trades in a particular NYSE-listed stock taking place in a specific place on the floor through a designated dealer known as a specialist. The specialist oversees trading and is required to maintain a fair and orderly market, acting as both a market maker and an agent for orders on the book. The NYSE also provides customers with electronic trading for NYSE-listed securities.

As demand for securities trading has increased, the NYSE has expanded its physical trading floor space, and as technology has become increasingly important in the U.S. securities industry, the NYSE has sought to develop technologies to increase choice and improve service to its customers, and to compete more effectively. In 1976, the NYSE introduced the Designated Order Turnaround (DOT) system to electronically route smaller orders directly to the specialist who acts as agent for these orders. Two years later, the NYSE and other exchanges jointly introduced the Intermarket Trading System to provide an electronic link between the NYSE and other exchanges. In 2001, in order to provide our customers with increased choice of execution methods, the NYSE introduced NYSE Direct+®, which is a fully electronic execution trading platform. For the year ended December 31, 2005, approximately 11.4% of the NYSE's total share volume was executed automatically through NYSE Direct+®. The NYSE is also in the process of creating the NYSE Hybrid MarketSM, which is intended to combine the advantages of the agency auction trading model and those of automatic execution, offering the speed, certainty and anonymity of electronic trading as well as the opportunity for negotiation and price improvement provided by an auction.

NYSE Arca. In December 1996, Gerald D. Putnam, our president and co-chief operating officer, co-founded the Archipelago Electronic Communications Network, or the Archipelago ECN, the precursor to NYSE Arca, by taking advantage of a market opportunity resulting from the SEC's new order handling rules governing securities trading. These rules were designed to address growing concerns regarding unfair and discriminatory pricing of customer orders for securities, and to promote transparency and enhance execution opportunities for customer orders in U.S. equity markets. See " Industry Overview" for a discussion of industry rules and developments.

ECNs are electronic trading systems that automatically match buy and sell orders at specified prices, and are registered with the SEC as broker-dealers. The Archipelago ECN was the first ECN to link traders to pools of liquidity throughout the U.S. securities markets. In July 2000, Archipelago partnered with the Pacific Exchange to develop ArcaEx. The SEC approved the establishment of ArcaEx and the related rules in October 2001.

In March 2002, ArcaEx's listed platform became operational and Archipelago began trading Pacific Exchange-listed securities on ArcaEx. By November 2002, Archipelago completed the rollout of exchange-listed securities on ArcaEx, and in April 2003 Archipelago fully integrated its trading platforms and completed the migration of Nasdaq-listed securities from Archipelago ECN to ArcaEx.

On August 19, 2004, Archipelago completed an initial public offering of its common stock and on September 26, 2005, Archipelago acquired PCX Holdings, Inc. and all of its wholly owned subsidiaries, including the Pacific Exchange and PCX Equities.

Information About the NYSE

Overview

The NYSE is the world's largest and most liquid cash equities market. For 213 years, the NYSE has facilitated capital formation by serving a wide spectrum of market participants, including individual and institutional investors, the trading community and listed companies. As of March 3, 2006, the NYSE listed approximately 2,684 issuers (which includes operating companies, closed-end funds and ETFs), many of which are the world's premier companies. In January and February 2006, on an average day, over 1.8 billion shares, valued at over \$69 billion, were traded on the NYSE.

In 2005, the NYSE generated revenues (less Section 31 fees) of approximately \$1.1 billion, which were generated primarily from:

listings fees;

data processing fees;

market data fees;

trading fees; and

facility and equipment fees.

The NYSE also generated revenues from regulatory fees and fines. These funds, however, are used for regulatory purposes. See " Regulation NYSE Regulation."

Listings Business

As of March 3, 2006, approximately 2,684 issuers were listed on the NYSE. Our listed operating companies represented a combined global market valuation of approximately \$22.5 trillion as of that date, which is approximately three times larger than that of the next largest cash equities market globally. As of March 3, 2006, 28 of the 30 publicly traded companies that constitute the Dow Jones Industrial Average and 85.0% of the stocks included in the S&P 500 Index were listed on the NYSE. The NYSE's roster of listed companies includes 453 non-U.S. companies from approximately 47 countries with a U.S.-publicly-held float of approximately \$1 trillion and a total global market valuation of approximately \$8 trillion.

Fees are paid by companies when they initially list on the NYSE and annually thereafter. Listing fees, which are subject to a minimum and maximum amount, are based on the number of shares that a company lists with the NYSE. Annual fees are charged on the outstanding shares of the company at the end of each year and are subject to a minimum and maximum fee. Listed companies also pay fees in connection with corporate transactions involving the issuance of new shares, such as stock splits, rights issues, sales of additional securities and mergers and acquisitions. Non-U.S. companies pay fees based on the number of listed securities issued or held in the United States.

Listing fees are an important component of the NYSE's revenue and accounted for 30.5% of the NYSE's total revenues, net of Section 31 fees, in 2005.

New Listings

The NYSE relies on new listings to maintain its competitive position in the United States and global markets. From January 1, 2000 to December 31, 2005, 625 domestic companies listed on the NYSE. This included 172 closed-end funds, 161 transfers from other markets, 55 spin-offs and 237 initial public offerings of operating companies. Among the initial public offerings of securities qualified to be listed on the NYSE from January 1, 2000 to December 31, 2005, the capital raised by those in fact listing on the NYSE represented 90% of the aggregate proceeds raised in all those qualified

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offerings. From January 1, 2000 to December 31, 2005, 116 companies have transferred their listing from Nasdaq to the NYSE. During that same period, only three companies voluntarily transferred from the NYSE to Nasdaq. Two additional companies elected to transfer to the Nasdaq in advance of SEC approval of recent amendments made to our continued listing standards that would have resulted in such companies being deemed below compliance.

A key to the NYSE's past success and future growth is its ability to list and retain non-U.S. companies. Generally, international companies are attracted to the U.S. and the NYSE to take advantage of the deep and diverse investor base, to signal that they meet the world's most stringent overall listing standards and to take their place alongside other global leaders. From January 1, 2000 to December 31, 2005, 199 international companies have listed on the NYSE.

We actively pursue new closed-end fund listings. From January 1, 2000 to December 31, 2005, 172 closed-end funds have listed on the NYSE, raising over \$78.9 billion in proceeds in their initial public offerings. This represents 74.8% of the funds qualified to list and 83.7% of the total closed-end fund qualified proceeds. The NYSE currently lists 484 closed-end funds, up from 431 in 2000.

Since 1988, we have supported the capital raising needs of companies qualified to list on the NYSE by providing a market for both debt and equity structured products such as capital securities, mandatory convertibles, repackaged securities and equity-linked index-linked securities and for debt securities traded on the trading floor. The number of new issuances and redemptions of these securities in any given year depends on many external factors, including interest rate levels and changes, economic conditions and financial regulation. From January 1, 2000 to December 31, 2005, the NYSE's structured products group has listed 610 securities.

Listing Standards

The NYSE requires that companies seeking to list securities on the NYSE meet minimum financial, distribution and corporate governance criteria. While in recent years the corporate governance criteria imposed by the various U.S. markets have become substantially similar, the NYSE's overall listing standards have traditionally been, and continue to be, the most stringent of any securities marketplace in the world. Once listed, companies must meet continued listing standards. All standards are periodically reviewed to ensure the NYSE attracts and retains the strongest companies with sustainable business models.

Each year, a number of companies cease to be listed on the NYSE, mostly as a result of normal corporate actions, such as mergers and acquisitions. From January 1, 2000 to December 31, 2005, approximately 27% of the 984 delistings from the NYSE resulted from the failure by the delisted company to maintain the minimum financial criteria required for continued listing on the NYSE. Over this period, new listings on the NYSE have kept the NYSE's overall number of listed companies at a relatively constant level.

Client Service

The NYSE has a team of professionals dedicated to serving the needs of its listed company community. These "client service managers" meet with their assigned listed companies individually and in regional executive forums that are scheduled by the NYSE. They provide value by keeping issuers aware of market trends, market structure initiatives and developments in governance and regulation. The NYSE believes that executives of listed companies place a high value on their relationship with their client service manager and on superior market quality, association with leading brands, global visibility, and unique marketing services that the NYSE provides. Client retention is consistently very high (*i.e.*, greater than 99.9%).

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We offer a variety of services to our listed companies, including the ability to leverage the NYSE brand in reaching out to existing and prospective investors. We sponsor virtual forums, as well as domestic and international conferences, to provide issuers access to global institutional investors. NYSEnet, a password-protected website for senior executives, provides data relating to proprietary trading, institutional ownership and market activity. The NYSE has also developed eGovDirect.com for use by listed companies, which is an interactive, web-based tool that helps listed companies meet their NYSE governance and compliance requirements efficiently and economically; as of year-end 2005, nearly 1,100 NYSE-listed companies were registered for access to this site. In addition, the NYSE believes that its executive education programs and the opportunities they offer to network with policy makers and fellow corporate executives are highly valued by the leaders of NYSE-listed companies. Moreover, the NYSE uses a range of advertising media, including print and radio, among others, to promote its listed companies through a variety of ongoing campaigns.

Order Execution Business

The NYSE is a marketplace where investors meet directly to buy and sell listed companies' common stock and other securities. One of the NYSE's primary functions is to ensure that orders to purchase and sell these securities are conducted in a reliable, orderly, liquid and efficient manner. Order execution on the NYSE occurs through a variety of means, and the NYSE seeks to continue to develop additional and more efficient mechanisms of trade.

Order Execution

Auction Market. One of the primary means for order execution is through the NYSE's auction market, in which orders are electronically transmitted for execution. Specialists at various locations on the trading floor are charged with maintaining fair, orderly and continuous trading markets by bringing buyers and sellers together and, in the relative absence of orders to buy or sell their assigned stock, adding liquidity by buying and selling the assigned stock for their own accounts. Floor brokers act as agents on the trading floor to handle customer orders.

Electronic Trading. Order execution also occurs through the NYSE's electronic trading platform, NYSE Direct+®, which represented approximately 11.4% of the NYSE's total share volume for the year ended December 31, 2005. NYSE Direct+® is an automatic-execution service for non-exchange traded fund (or ETF) limit orders of up to 1,099 shares (with a maximum supported order size of 3,000,000 shares for ETFs and similar securities) and enables users to elect immediate execution at the best bid or offer, without a fee and with anonymity and speed.

NYSE Hybrid MarketSM. We are implementing the NYSE Hybrid MarketSM in order to combine the advantages of our agency auction trading model and those of electronic trading. We believe that the NYSE Hybrid MarketSM will enhance the NYSE's ability to meet the diverse and changing needs of customers by providing them greater choice while enhancing our existing execution platforms. The NYSE Hybrid MarketSM will offer the speed, certainty and anonymity of electronic trading, as well as the opportunity for negotiation and price improvement provided by an auction market. All customers, regardless of size, will have ready access to multiple choices to route their orders to the NYSE's central market. For a more detailed discussion of the NYSE Hybrid MarketSM, see " Business Information About the NYSE The NYSE Hybrid Market Initiative."

Products Traded

Equity Securities. The NYSE is the world's largest cash equities market, both in terms of average daily trading volume and in the market capitalization of its listed companies. In January and February 2006, on an average day, over 1.8 billion shares, valued at over \$69 billion, were traded on the NYSE, and the NYSE is approximately three times the size of the next largest cash equities market

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in the world in terms of market capitalization of domestic listed companies. For the year ended December 31, 2005 the NYSE executed 78.6% of the share volume of NYSE-listed securities during the NYSE's trading hours of 9:30am to 4:00pm.

Bonds. The NYSE also operates the largest centralized bond market of any U.S. exchange or other self-regulatory organization. A broad selection of bonds is traded on the NYSE, such as corporate (including convertibles), agency and government bonds. The trading volume of bonds on the NYSE is primarily in corporate bonds, with approximately 94% of this volume in non-convertible bonds. Bonds trade on the NYSE through the NYSE's Automated Bond System® ("ABS"), a screen-based system used by NYSE member organization subscribers. ABS maintains and displays priced bond orders and matches those orders on a strict price and time-priority basis. It also reports real-time quotes and trades to market data vendors. We are actively developing applications to leverage NYSE Arca's core technology to upgrade our current bond trading platform, which was initially developed in 1977.

Others. In addition to cash equities and bonds, as of December 31, 2005, the NYSE also listed 484 closed-end funds and over 600 structured products designed to offer investors unique risk/return characteristics.

Trading Fees

Trading fees are paid by member organizations based on trades executed at the NYSE. Fees are assessed on a per share basis for trading in equity securities. The fee amounts vary, based on the size and type of trade that is consummated. There is no fee for small electronic trades. All member organizations pay trading fees, except "\$2 brokers" (who, by definition, effect transactions only for other member organizations) and specialists (who pay trading fees for ETFs). There are two caps, the lower of which applies to the net trading fees that member organizations must pay. The first cap is a fixed dollar amount maximum of \$600,000 per month. The second is a variable cap that is equal to 2% of the net commissions that a member organization earns on the trades that it executes on the trading floor. These pricing structures are currently undergoing a fundamental examination as part of a broad strategic review of opportunities for revenue growth and efficiency improvement and to better align transaction revenue with executed volume, product expansion and new product development. Trading fees accounted for approximately 13.0% of the NYSE's total revenues, net of Section 31 fees, in 2005.

Market Data Business

The NYSE collects and distributes market data, including real-time information relating to securities quotations, limit orders and the prices at which securities transactions take place. The broad distribution of accurate and reliable real-time market data is essential to the proper functioning of any securities market because it enables market professionals and investors to make trading decisions. We believe that the quality of the NYSE's market data, and the ability of traders to act on that data, attract order flow to the NYSE for execution and reinforce the NYSE brand. The pricing for market data products must be approved by the SEC on the basis of whether prices are fair, reasonable and not unreasonably discriminatory. For a discussion of recent regulatory changes affecting market data, see " Regulation Recent Regulatory Developments."

The collection and distribution of market data accounted for 15.9% of the NYSE's total revenues, net of Section 31 fees, in 2005.

The NYSE's market data activity is divided into two parts: consolidated data services and NYSE proprietary data products.

Consolidated Data Services

The SEC requires securities markets to consolidate their bids, offers and last sale prices for each security, and provide the public with an integrated source of this information. The NYSE works with other markets to make this market data available on a consolidated basis on what is often referred to as the "consolidated tape." This intermarket cooperative effort provides the investing public with the reported transaction prices and the best bid and offer for each security, regardless of the market to which a quote or trade is reported or on which a trade takes place.

The SEC regulates the conduct of this intermarket activity under Rule 608 of Regulation NMS. The relationships among the markets that participate with the NYSE in the data joint ventures are defined in two securities industry plans the CTA Plan and the CQ Plan. Last sale prices for NYSE-listed securities are disseminated pursuant to the CTA Plan and quotes for NYSE-listed securities are disseminated pursuant to the CQ Plan. The network through which last sale prices and quotes in NYSE-listed securities are disseminated under the two plans is commonly referred to as "Network A."

The terms of the CTA Plan and the CQ Plan provide that the participating markets will distribute market data by means of two networks, Network A (through which data relating to NYSE-listed securities are disseminated) and Network B (through which data related to AMEX-listed securities and certain securities that are listed on other national securities exchanges are disseminated). The two plans currently require that the participating markets allocate the revenues that each network's market data distribution generates (net of joint processing and administration costs) on the basis of their respective number of trades. Under the market data rule of Regulation NMS, revenue will be allocated to market centers based, among other things, on the value of the quotes and trades for all securities. Compliance with the market data rule of Regulation NMS will begin on September 1, 2006. For a description of Regulation NMS and the market data rule, see " Regulation Recent Regulatory Developments Regulation NMS."

The other markets that participate in Network A have delegated to the NYSE the responsibility for acting as the Network A administrator. In this capacity, the NYSE recommends Network A operational decisions, bills Network A data recipients for applicable charges, collects those amounts, and administers Network A contracts. The NYSE also oversees the preparation of Network A financial statements, maintains all Network A records and maintains relationships with Network A data recipients. The NYSE recoups the costs of administering Network A. In 2005, the NYSE's share of Network A trades was approximately 87.5%.

Network A data is widely available. More than 400,000 devices displaying real-time data were used by broker-dealers, institutional investors and other industry professionals who received real-time Network A data as of the end of 2005, as did more than 12 million nonprofessional investors. Investors are able to receive real-time Network A data through a variety of sources, including personal computers, telephones, televisions and PDAs.

Approximately 72% of Network A revenues derive from a monthly securities professional device fee paid by broker-dealers and other market professionals for each device through which they receive Network A data. Other sources of Network A revenues include:

access fees paid by vendors and others who receive access to high speed streams of Network A data;

computer program classification fees paid by data recipients who use real-time Network A data for purposes other than interrogation and display (such as to create stock tables for newspapers and to perform computer tracking of price movements);

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nonprofessional subscriber and usage-based fees paid by vendors and broker-dealers that provide real-time Network A data to nonprofessional retail investors; and

fees paid by cable television stations that display real-time last sale prices.

SIAC serves as the data collector, processor and distribution point for Network A and other data joint ventures. Each market provides its quotes and trade reports and related information to SIAC. SIAC sequences, stores and validates the markets' data and makes the resultant streams of consolidated last sale prices and bid/ask quotations available to vendors and others. Vendors, in turn, provide that market data to broker-dealers, mutual and hedge funds, investment advisors, other market professionals and individual investors.

NYSE Proprietary Data Products

The NYSE also makes certain market data available independently of other markets. The NYSE packages this market data as:

trading products (such as NYSE OpenBook®, through which the NYSE makes available all limit orders); and

analytic products (such as TAQ Data, NYSE Broker Volume and a variety of other databases that are made available other than in real-time and that are generally used by analytic traders, researchers and academics).

These products are proprietary to the NYSE, and the NYSE does not share the revenues that it generates from these products with other markets. The pricing for proprietary products must be approved by the SEC.

Over the past two decades, the NYSE has expanded its market data business by tapping new markets, in particular nonprofessional subscribers, the cable television audience and customers interested in the NYSE's proprietary data products. Revenues for NYSE proprietary data products have grown significantly over the last few years, fueled in large part by the success of NYSE OpenBook®, which the NYSE introduced in 2002. The advent of trading in penny increments and the accelerated use of "black box" trading tools accelerated the success of NYSE OpenBook®.

Facilities and Equipment

The NYSE operates approximately 46,000 square feet of contiguous trading floor space where specialists, floor brokers, and clerks engage in the purchase and sale of securities. As of February 14, 2006, there were 403 specialists, 821 floor brokers and 2,310 clerks conducting business on the NYSE's trading floor. The NYSE derives revenues from these specialists, brokers and clerks by providing them with various products and services, including space, necessary for them to engage in the purchase and sale of securities on the trading floor.

Until recently, the NYSE charged each specialist firm for both the number of post spaces occupied on the trading floor, and for each registered specialist. However, as of January 1, 2006, the NYSE introduced a new pricing structure to replace several fees that had been previously charged by the NYSE to specialists. Under this new structure, referred to as the "Specialist Trading Privilege Fee," specialists are charged an annual fee per symbol traded on the NYSE, and this fee is determined based on the consolidated average daily dollar volume of each particular symbol traded by the specialists. The NYSE charges floor brokers for each booth occupied on the trading floor, and rates vary depending on the location of the particular booth. Specialists and floor brokers also pay an annual fee for each of their clerks working on the trading floor. Fees are also charged to trading floor participants for a variety of services provided by the NYSE including NYSE e-Broker handheld devices, phone service, radio paging and connections to third-party market data providers.

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Facility and equipment fees accounted for 4.4% of the NYSE's total revenues, net of Section 31 fees, in 2005.

Data Processing Fees

For a description of data processing fees, see " Securities Industry Automation Corporation" section below.

Securities Industry Automation Corporation

Overview

SIAC is the principal vendor of the NYSE's data processing and software development services and a registered securities information processor under the Exchange Act. The NYSE owns two-thirds of the equity of SIAC, and AMEX owns the remaining one-third. Formed in 1972 as a New York business corporation, SIAC:

plans, develops, implements and operates a variety of automated information-handling and communication systems that support order processing, trading, and market data reporting, as well as trade comparison, for a broad range of securities;

provides systems support for essential regulatory and administrative activities; and

operates and manages the SFTISM network, which provides resilient and reliable communications within the financial services industry.

Historically, SIAC has been operated as a cost-recovery utility. As a result, it provides its services to its customers on an at-cost, non-profit basis. SIAC's contribution to NYSE revenues, net of Section 31 fees, accounted for 16.3% of the NYSE's total revenue in 2005.

SIAC's wholly owned for-profit subsidiary, Sector, Inc., offers an array of communications and data processing services, primarily to the broker-dealer community. These services include email archiving, other books and record storage solutions, facilities management, data center hosting, disaster recovery, enterprise services and network and data distribution services. The telecommunications services include traditional point-to-point voice circuits and network management. Sector is headquartered in New York City.

SIAC Governance

The SIAC bylaws provide that the SIAC board of directors shall consist of 14 directors. Under a shareholders' agreement among SIAC, the NYSE and AMEX, of these 14 directors:

seven directors are selected by the NYSE (provided that at least five of these seven directors are not officers or employees of the NYSE unless they are also members of the NYSE board of directors);

three directors are selected by AMEX (provided that at least one of these three directors is not an officer or employee of AMEX);

one director is jointly selected by the NYSE and AMEX (it is contemplated that this director will also serve as the chief executive officer of SIAC); and

three directors are selected by the Securities Industry Association.

The directors are divided into two classes, designated as Class A directors and Class B directors. Each class of directors is elected for a two-year term so that the term of office of one class of directors expires each year. John A. Thain, who is our chief executive officer and one of our directors, is chairman of the SIAC board of directors.

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The SIAC board of directors has two standing committees: the executive committee and the audit committee. The executive committee is comprised of five members of the SIAC board of directors. The executive committee's responsibilities include:

reviewing the management personnel needs, structure and policies of SIAC;

reviewing the current and anticipated financial requirements of SIAC; and

functioning as SIAC's compensation committee for the purpose of reviewing and approving the compensation plans and guidelines for all employees and the officers of SIAC.

The audit committee is comprised of three members of the SIAC board of directors. Its responsibilities are to assist the SIAC board of directors in fulfilling its financial accounting oversight responsibilities. In this capacity, the audit committee reviews the financial reporting process, the system of internal controls and the process by which SIAC maintains compliance with applicable laws, rules and regulations.

The NYSE, AMEX and SIAC are parties to a shareholders agreement that governs the respective rights of the NYSE and AMEX relating to SIAC. Under the shareholders agreement, neither the NYSE nor AMEX may transfer any of their shares in SIAC to a third party without the consent of the other party, unless this transfer occurs:

by operation of law, by reason of insolvency or other cause; or

upon completion of a right-of-first-refusal process, in which the other party has the right to acquire any SIAC shares proposed to be transferred by either the NYSE or AMEX to a third party at the lower of:

the price offered by the third party seeking to acquire such SIAC shares; or

the "option price" agreed upon by the NYSE and AMEX from time to time or established by a five-person committee consisting of two representatives appointed by each of the NYSE and AMEX and one person appointed by the four members. (There is currently no determined option price.)

Major Customers

SIAC currently provides data processing services to the following major customers and customer groups:

the NYSE, which was the source of 58% of SIAC's revenues in 2005;

AMEX, which was the source of 16.4% of SIAC's revenues in 2005; and

the National Securities Clearing Corporation and Fixed Income Clearing Corporation, which have been absorbed into The Depository Trust & Clearing Corporation and together were the source of 9.1% of SIAC's revenues in 2005.

In addition, SIAC operates the Intermarket Trading Systems and provides services to the Intermarket Surveillance Group Participants, the CTA Plan and CQ Plan and the Options Price Reporting Authority. SIAC also provides services to Sector.

The NYSE and AMEX are SIAC's largest customers. The removal of the business of either could have a material adverse effect on SIAC. The National Securities Clearing Corporation and Fixed Income Clearing Corporation have entered into separate agreements with SIAC,

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pursuant to which the services previously provided by SIAC are being phased out. In addition, AMEX has sent a notice to SIAC indicating that it intends to materially decrease its use of SIAC's services. If AMEX materially decreases its use of SIAC's services, SIAC's revenues will be adversely affected. To the extent that

AMEX does not bear a portion of the costs associated with this decrease (including transition costs and an appropriate share of SIAC's current overhead as SIAC seeks to mitigate the overhead costs), or to the extent that the NYSE is not able to reduce its costs associated with SIAC to offset the amount of reduction in revenue from SIAC (which it may not be able to do), the NYSE's profits and results of operations may be adversely affected. See also "Item 1A. Risk Factors Risks Relating to Our Business Our revenues from SIAC could significantly decrease if SIAC loses its major customers."

Facilities Management Agreement

SIAC provides services to the NYSE and AMEX pursuant to an agreement dated February 23, 1977, among the NYSE, AMEX and SIAC, as amended, and a Paying Agency Agreement dated August 23, 2004 (which we refer to collectively as the "facilities management agreement"). The facilities management agreement provides for services to be provided and products to be obtained by SIAC on behalf of or for use by the NYSE or AMEX, as either may request, at SIAC's cost. The facilities management agreement also provides that the NYSE or AMEX may request that the services to be provided to it be added to, modified or terminated, and that SIAC will "use its best efforts, consistent with sound business practices, to adapt to the changed requirements of each exchange for services rendered by SIAC."

Generally, the at-cost basis for service charges under the facilities management agreement includes dedicated manpower (such as salaries, overtime, part-time help and benefits); dedicated data processing or communications supplies and equipment; dedicated general expenses (such as office supplies, photocopy equipment, local transportation and travel); and shared common expenses (such as occupancy costs, facilities engineering support, security services and other non-dedicated manpower and related expenses, etc.), as well as any costs for products or services from third-party vendors. Costs are billed to the NYSE (and AMEX) on a monthly basis.

The facilities management agreement requires SIAC to recognize individual ownership rights on the part of the NYSE or AMEX of properties acquired by SIAC at the respective direction and expense of the NYSE and AMEX and joint ownership rights on the part of the NYSE and AMEX of properties acquired by SIAC for services provided to both the NYSE and AMEX. The agreement requires SIAC to maintain confidentiality regarding services it undertakes for each of the NYSE and AMEX and with regard to certain information obtained by SIAC in connection with the provision of services.

During the NYSE's last five fiscal years, the NYSE paid SIAC fees under the facilities management agreement of approximately \$256.9 million in 2001; \$273.3 million in 2002; \$253.0 million in 2003; \$266.1 million in 2004; and \$252.8 million in 2005. AMEX paid SIAC fees under the facilities management agreement of approximately \$104.9 million in 2001; \$97.1 million in 2002; \$93.9 million in 2003; \$79.5 million in 2004; and \$71.4 million in 2005.

Separate services agreements cover services provided by SIAC to National Securities Clearing Corporation and Fixed Income Clearing Corporation, to Options Price Reporting Authority and to the participants in the CTA Plan and the CQ Plan.

The NYSE Hybrid MarketSM Initiative

On March 22, 2006, the Securities and Exchange Commission approved the NYSE Hybrid MarketSM, which will combine auction-based and electronic trading for equities listed on the NYSE. This initiative is our response to the request from both market professionals and individual investors for greater choice and flexibility in buying and selling stocks on the NYSE. The NYSE Hybrid MarketSM is also our strategy for adapting to the revised "trade through" rule adopted by the SEC on April 6, 2005 as a part of Regulation NMS, which prohibits trading-through of quotations that are displayed by another market and immediately accessible through automatic execution.

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The NYSE Hybrid MarketSM is intended to emulate, in a primarily automatic-execution environment, the features of the traditional auction market that have provided stable, liquid and less volatile markets, as well the opportunity for price improvement. The NYSE Hybrid MarketSM will expand the availability of the NYSE's current automatic execution service (NYSE Direct+®), which provides order execution at sub-second speed and for the year ended December 31, 2005 handled approximately 11.4% of the NYSE's average daily share volume. The NYSE Hybrid MarketSM is intended to feature the following:

All quotes will be automatically and continuously refreshed and reflect the combined liquidity of the NYSE Display Book® and the electronic interest of trading floor broker agents and the specialist. Limit orders will be published in real time. This structure will facilitate the ability of brokers and specialists to interact with supply and demand and to scale interest and provide price improvement to incoming electronic orders seeking liquidity.

Customers will have the choice of auction representation and the opportunity for price improvement over the published best bid and offer. The NYSE's auction model currently provides price improvement for more than 25% of incoming orders, most obtaining improvement better than the midpoint of the quote spread.

Specialists and floor brokers will supplement liquidity to stabilize price movements in both the automated and auction components of the NYSE Hybrid MarketSM through the use of floor broker agency interest files, and specialist layered interest files and specialist algorithmic interaction with orders. As such, both electronically and manually executed orders may benefit from the value added by specialists in committing capital and providing depth to the market, and from the competition among electronic orders as well as those represented by floor brokers. Floor brokers will participate both electronically and in person, using human judgment to process large or complex orders more effectively than is possible on a solely electronic platform.

Time restrictions between the entry of orders by the same beneficial owner on NYSE Direct+® will be eliminated and all size limit and market orders will be accepted up to the maximum supported order size, which is currently 3,000,000 shares.

Those customers that desire sub-second, automatic trade execution will have access to floor liquidity. Customers with buy and sell orders beyond the size of the best bid or offer will have the ability to "sweep the book" or designate individual orders to trade at multiple price points subject to certain limitations, including the Liquidity Replenishment PointsSM or "LRPs" described below.

In order to preserve the lower volatility that has characterized trading on the NYSE, pre-determined and published LRPs will limit sweeps. When activated, LRPs will allow integration of the electronic market with the auction market for one transaction, thus enabling the specialist to elicit additional trading interest.

All better-priced top-of-book bids and offers entitled to protection under Regulation NMS in all other automated markets will be immediately accessed unless customers are provided the same price on the NYSE. All incoming orders from all competing market centers will be automatically executed at the displayed best price. This will create an environment in which best prices will be protected from inferior-priced trade executions regardless of where an order is entered, and without awaiting human reaction.

As part of the NYSE Hybrid MarketSM initiative, the NYSE will further automate routine specialist tasks and create a new interface to facilitate algorithmic liquidity injection by specialists. In addition, the NYSE will add new functionality to trading floor broker wireless hand-held computers to further automate smart order types and create a new broker interest file with layering capabilities.

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The NYSE Hybrid MarketSM will build on the NYSE's core attributes of liquidity, pricing efficiency, low trading costs and tight spreads by broadening customers' ability to trade quickly and anonymously. The NYSE Hybrid MarketSM will also further the NYSE's goal of providing all investors, regardless of their size, with the best price when buying or selling shares. Interaction of the NYSE's automatic and auction markets also would maintain the opportunity for price improvement.

By continuing to maintain market quality, including lower intra-day volatility, the NYSE Hybrid MarketSM will also allow issuers to reduce their cost of capital. Combining the NYSE's technology with the advantages of the auction market would enable the NYSE market to function more effectively and efficiently. In the NYSE Hybrid MarketSM, specialists and brokers, who will use judgment to improve prices and enhance order competition on the floor of the NYSE, will interact with the market electronically as well as vocally and manually. We believe that their judgment will be particularly valuable in less liquid stocks and during the opening and closing of trading as well as during times of uncertainty, when a corporate announcement or an outside event could lead to market instability and price volatility.

The NYSE is developing the software that will power the NYSE Hybrid MarketSM. In December 2005, the NYSE initiated the first phase of a pilot to test selected features and functionality of the NYSE Hybrid MarketSM among a limited number of securities approved by the SEC. As of March 3, 2006, 147 securities listed on the NYSE were activated for inclusion in this phase of the pilot. To date, NYSE Hybrid MarketSM software is functioning as expected, and all features are being actively exercised by trading floor professionals.

NYSE Membership Organizations

NYSE member organizations are comprised of (1) entities who obtain trading licenses in accordance with the rules and regulations of the NYSE (including the rules of eligibility that will apply to those who wish to be a member organization); and (2) broker-dealers who agree to submit to the jurisdiction and regulations of the NYSE without obtaining a trading license. As member organizations, they are subject to the rules and policies of the NYSE. In the future we may decide to offer member status to other types of organizations, for example, if we decide to issue separate licenses for electronic access or access for particular products.

NYSE Trading Licenses

Physical and electronic access to the trading facilities of the NYSE, subject to such limitations and requirements as may be specified in the rules of the NYSE, are available only to member organizations that have purchased a trading license from us. These trading licenses have the following attributes:

Duration and Pricing. The price of trading licenses is determined through a modified Dutch auction process once per year. The clearing price at which all licenses are sold in the auction is determined under procedures calculated to provide suitable revenue to NYSE Market while providing fair access to its facilities to member organizations that wish to do business there. On January 4, 2006, based on this modified Dutch auction process, the NYSE sold 1,274 trading licenses at an annual price of \$49,290 per license. The NYSE has made a total of 1,366 trading licenses available for purchase during 2006, the remainder of which can be purchased, subject to the approval of NYSE Regulation, for a premium of 10% to the auction price. Except for these initial trading licenses, which will be valid from March 7, 2006 through the end of 2006, each trading license will be valid for one calendar year.

Availability. We expect that the number of trading licenses that will be outstanding (as well as the price for these licenses) will be determined through a modified Dutch auction on an annual basis. We also have the right to sell additional trading licenses during the year at a price greater than the auction price, in order to, among other things, ensure that the supply of trading

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licenses is adequate to meet demand for the trading licenses should conditions change after the auction and to accommodate new businesses that commence operations after the beginning of the year. Holders of trading licenses have the right to cancel their trading license prior to the end of the year, subject to paying NYSE Market an early termination penalty. A maximum of 1,366 trading licenses are made available at any one time.

Approval of NYSE Regulation. Any bidder for a trading license is subject to the approval of NYSE Regulation.

We have not determined whether we will issue separate licenses for access for particular products.

Information About NYSE Arca

Overview

We also operate NYSE Arca, formerly known as the Archipelago Exchange or ArcaEx® and the Pacific Exchange. NYSE Arca is the first open, all-electronic stock market in the United States for trading equity securities listed on NYSE Arca, the NYSE, Nasdaq and AMEX, as well as ETFs and other exchange-listed securities. NYSE Arca is also an exchange for trading equity options, and operates the facilities, technology and systems required for the operation of marketplaces for trading equity securities and options. Through NYSE Arca, customers can trade over 8,000 equity securities and over 175,000 option products.

NYSE Arca's trading platforms link traders to multiple U.S. market centers and provide customers with fast electronic execution and open, direct and anonymous market access. The technological capabilities of NYSE Arca's trading systems combined with its trading rules have allowed NYSE Arca to create a large pool of liquidity that is available to customers internally on NYSE Arca and externally through other market centers. On an average day, over 700 million securities, valued at over \$25 billion, are traded through NYSE Arca's trading platforms.

NYSE Arca generated approximately \$493.4 million in total revenues, net of Section 31 fees, in 2005. Approximately 99% of these revenues consisted of transaction fees and market data fees generated by securities transactions executed on or through its trading platforms.

Equities Trading Platforms and Services

NYSE Arca operates two all-electronic equity securities trading systems, one for trading NYSE-, Nasdaq- and AMEX-listed securities, and another for trading over-the-counter equity securities. These markets offer a variety of execution-related services, including our "best execution routing" capability and routing services through the NYSE's DOT system. NYSE Arca's systems operate on three simple but fundamental principles: fast electronic execution, transparency and open market access. On NYSE Arca, buyers and sellers meet directly in an electronic environment governed by trading rules designed to reflect these three fundamental principles.

The rules governing trading on NYSE Arca require execution of orders, without discretion, in accordance with the principles of openness, fairness and equal access. These trading rules are predicated on "price-time priority" within NYSE Arca, which requires execution of orders at the best available price and, if orders are posted at the same price, based on the time the order is entered on our trading system. NYSE Arca's electronic matching and routing systems actively searches across multiple market centers and either matches orders internally or by routing orders out to the best bid or offer displayed in the market using our "best execution routing" capability. The technological capabilities of NYSE Arca's trading systems, together with our trading rules, have allowed us to create a large pool of liquidity available to our customers internally on NYSE Arca or externally through other markets.

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On NYSE Arca, buyers and sellers can view our open limit order book, which displays orders simultaneously to both the buyer and the seller. Buyers and sellers also can submit these orders on an anonymous basis if they so choose. Once orders are submitted, all trades are executed in the manner designated by the party entering the order, which is often at prices equal to or better than the national best bid or offer. The national best bid or offer is the highest bid or lowest offer quote reported to the Consolidated Quote and Nasdaq pursuant to the quotation and transactions reporting plans. See " Industry Overview." Buy orders and sell orders are posted on NYSE Arca in price order (best to worst) and then if prices are the same, they are ordered based on the time the buy order or sell order was posted (earliest to latest). NYSE Arca users may choose to have their unexecuted orders left on our open order book, returned to them, or routed to other markets using our "best execution routing" capability.

We refer to permitted users of NYSE Arca's equity trading systems as "equity trading permit holders". Any registered broker-dealer who wishes to trade on NYSE Arca's equity trading systems may obtain an equity trading permit from NYSE Arca.

During 2005, NYSE Arca generated approximately \$415.4 million in revenues from equity securities transaction fees.

Equities Listing. NYSE Arca offers a listing venue for companies and index providers for their equity securities, exchange-traded funds and other structured products. In order to list on NYSE Arca, a company must meet quantitative and qualitative listing criteria (which differ from those applicable to NYSE-listed companies), including minimum market capitalization, net worth, number of shares outstanding and number of beneficial owners. In addition, listed companies must comply with corporate governance rules of NYSE Arca. Compliance with the listing standards is monitored and enforced by NYSE Regulation.

We plan to leverage the NYSE brand to continue to build NYSE Arca's growing listing business. We expect NYSE Arca's proposed listing standards will extend the NYSE's current focus on quality companies to growing companies that do not yet meet the NYSE's stringent listing standards. NYSE Arca's listing venue will provide issuers with many of the benefits that are provided to NYSE-listed companies, including an affiliation with one of the world's leading brands, exceptional market quality and a wide range of value added products and services. By leveraging the NYSE brand across two listings platforms, we believe we will be in an excellent position to serve a broader segment of corporate issuers.

As of December 31, 2005, there were approximately 194 companies and 4 index providers listed on NYSE Arca, spanning a broad range of industries, including many Fortune 500® companies. Of these companies, 10 were exclusively listed on NYSE Arca.

Options Trading Platform and Services

On September 26, 2005, Archipelago completed the acquisition of NYSE Arca Holdings, Inc. (formerly known as PCX Holdings, Inc.) and all of its wholly owned subsidiaries, including NYSE Arca, Inc. (formerly known as the Pacific Stock Exchange, Inc.) and NYSE Arca Equities, Inc. (formerly known as PCX Equities, Inc.). Through these entities, NYSE Arca operates a marketplace for trading options on exchange-listed securities. The underlying securities are listed and trade on NYSE Arca, the NYSE, AMEX and Nasdaq.

NYSE Arca's option market center includes the trading facilities, technology and systems for trading options as well as regulatory, surveillance and compliance services. It also provides listing services for options on stocks that meet certain minimum criteria. NYSE Arca's options business trades approximately 500,000 contracts each day on more than 1,700 stocks.

NYSE Arca's options business uses a technology platform and market structure that is designed to enhance the speed and quality of trade execution for its customers and to attract additional sources of liquidity by allowing market makers to have access to its markets remotely and by integrating floor-based participants and remote market makers. During 2006, we expect to introduce a new options trading platform based on the architecture of our equities trading platform. The revenue from NYSE Arca's options business is derived primarily from transaction execution services, market data services on a real-time or summary basis and providing a trading venue for issuers of options contracts.

We refer to permitted users of NYSE Arca's options trading system as "options trading permit holders." Any registered broker-dealer who wishes to trade on NYSE Arca's options trading system may obtain an options trading permit from NYSE Arca.

During the fourth quarter of 2005, NYSE Arca generated approximately \$9.6 million in revenues from options transaction fees. For a discussion of selected transaction statistics for 2005, see "Item 6. Selected Financial Data" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Options Listing. Under the rules of NYSE Arca, in order to list an option on a stock, there must be at least seven million shares of the underlying stock available for public trading, with at least 2,000 holders of the security. In addition, there must be active public trading in the underlying stock, and that stock must meet certain minimum price tests. These rules also include specialized criteria for listing options on certain types of securities, such as shares of index funds or exchange-traded funds, trust-issued receipts and American Depositary Receipts. Compliance with these rules and criteria are monitored and determined by the Pacific Exchange.

Options Products. Options contracts are contracts with standardized terms that give the buyer the right, but not the obligation, to buy or sell a particular stock or stock index at a fixed price (the strike price) for a specified period of time (until the expiration date). Options are used in various ways by a range of investors with different goals and strategies, such as protecting equities portfolios by using options as a hedge and buying puts as a protection against unexpected declines in price, or speculating on the direction of a stock price by purchasing puts or calls in anticipation of a stock's directional movement and hope of return on risk.

Options Clearing and Settlement. All options contracts traded on NYSE Arca's options exchange as well as other U.S. securities exchanges are issued and cleared by The Options Clearing Corporation (referred to in this report as the OCC), a clearing corporation registered with the SEC and owned by member options exchanges, including NYSE Arca. The OCC, which issues and clears all U.S.-listed options, as well as certain futures and options on futures on a number of underlying financial assets, including common stocks, currencies, stock indices and interest rate composites, is among the world's largest clearing organizations for options and equity derivatives.

Market Data Products

NYSE Arca offers customers market data products on a real-time and on a summary basis. NYSE Arca's market data products are designed to improve trade execution and enhance understanding of market dynamics. Customers can view in real time the bids and offers posted on NYSE Arca and can access other extensive market and trading data through our website which includes ArcaVision.

Real-Time Data Feeds and Market Data Fees. NYSE Arca participates in the national market system for the consolidation, dissemination and sale of market data in U.S. exchange-listed securities. NYSE Arca earns market data fees, based on the level of trading activity on NYSE Arca, by providing its data to the centralized aggregators of this information that in turn sell the data to third-party consumers such as Thomson Financial Inc. and Bloomberg, L.P. During 2005, Archipelago generated approximately \$62.0 million in revenues from market data fees.

ArcaVision. ArcaVision offers analytic tools that go beyond the traditional trading data that is available to customers. NYSE Arca developed ArcaVision in response to customer demand for increasingly detailed analyses of trading patterns, and it is designed to provide customers with critical market data on particular stocks. The ArcaVision website is available to issuers listed on NYSE Arca, customers executing trades on NYSE Arca, and the general public. ArcaVision's sophisticated system enables NYSE Arca to customize the views available to each user to meet their specific needs.

ArcaEx Tech 100 Index

The ArcaEx Tech 100 Index (which we intend to rename as the NYSE Arca Tech 100 Index) is a price-weighted, broad-based index. Comprised of 100 listed and over-the-counter stocks from 14 different industries including computer hardware, software, semiconductors, telecommunications, data storage and processing, electronics and biotechnology, the ArcaEx Tech 100 Index is a tech sector equivalent of the Dow Jones Industrial Average and is a market indicator used by mutual fund rating services, analysts, asset managers and private investors to gauge the overall performance of the technology sector of the U.S. equity market. NYSE Arca owns and maintains the ArcaEx Tech 100 Index through its wholly owned subsidiary, NYSE Arca, Inc.

Business Developments

Bond Trading Platform. On November 7, 2005, NYSE Arca filed a proposal with the SEC which is pending to launch a corporate bond trading platform. However, as a result of the merger, the NYSE and NYSE Arca are developing a single bond trading platform based on NYSE Arca's core technology platform and the NYSE's ABS system.

Tech 100 Index and ETF. On November 2, 2005, we announced that, in conjunction with Ziegler Capital Management LLC, we had filed documents with the SEC to create a new technology exchange traded fund named the ArcaEx Tech 100 ("ArcaETF") which is expected to launch in 2006 under the ticker AXT, and will be listed and traded exclusively on NYSE Arca. The ArcaETF will be benchmarked to the ArcaEx Tech 100(SM) Index, formerly the PSE Tech 100 Index. The ArcaEx Tech 100 Index has been in existence since 1982, and is comprised of 100 listed and over-the-counter securities, including computer hardware, software, semiconductors, telecommunications, data storage and processing, electronics and biotechnology.

Restrictions on Business Activity. On September 26, 2005, NYSE Arca completed the acquisition of PCX Holdings, Inc. (which is now referred to as NYSE Arca) and all of its wholly owned subsidiaries, including the Pacific Stock Exchange, Inc. (which is now referred to as NYSE Arca, Inc.) and PCX Equities, Inc. (which is now referred to as NYSE Arca Equities, Inc.). Upon completion of that transaction, NYSE Arca's continued ownership of certain of its registered broker-dealer subsidiaries and subsidiaries that hold exchange trading permits would have caused NYSE Arca to exceed certain ownership and voting limitations to which it was subject, absent specific approvals from the SEC. Consequently, the SEC approved a rule proposal that limits the conduct of NYSE Arca's business following the acquisition the main terms of which are described below:

Divestiture of Wave Securities. NYSE Arca was permitted to own and operate its wholly owned subsidiary Wave Securities, L.L.C., a registered broker-dealer, only until the closing of Archipelago's merger with NYSE. On March 3, 2006, NYSE Arca completed the sale of Wave Securities to Merrill Lynch & Co. Wave Securities offered agency brokerage services to institutional customers seeking to gain access to NYSE Arca and other market centers electronically.

Outbound Router Function. Archipelago Securities, LLC, one of our wholly owned subsidiaries, is a registered broker-dealer, a member of the NASD, and an exchange trading permit holder. Archipelago Securities currently provides an optional routing service for NYSE Arca to route

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orders to other market centers from NYSE Arca (we refer to this service as the "Outbound Router function"). The SEC approved Archipelago Securities to be a facility of NYSE Arca, subject to certain conditions, including that Archipelago Securities will not engage in any business other than its Outbound Router function (including, in that function, the self-clearing functions that it currently performs for trades with respect to orders routed to other market centers).

Inbound Router Function. Archipelago Trading Services, Inc., one of our wholly owned subsidiaries, is also a registered broker-dealer and a member of the NASD. Archipelago Trading acts as an introducing broker for non-ETP Holder broker-dealer customers for securities traded on NYSE Arca (we refer to this service as the "Inbound Router function"). The SEC granted temporary approval until the closing of the merger of the NYSE and Archipelago for us to continue to own and operate the Inbound Router function of Archipelago Trading. NYSE Arca sold Archipelago Brokerage Services, L.L.C., a wholly owned subsidiary which will operate the inbound routing executive services formerly executed by Archipelago Trading and certain Wave customer accounts, to Order Execution Services Holdings, Inc. on March 2, 2006.

Terra Nova. The SEC has also granted a temporary exception until May 15, 2006 for Gerald D. Putnam, our president and co-chief operating officer, to continue, subject to certain conditions, to indirectly beneficially own, through TAL Financial Services, LLC ("TFS"), in excess of 5% of Terra Nova Trading, L.L.C. ("TNT"), a registered broker-dealer, a member of the NASD, and an equities trading permit holder for trading on NYSE Arca, and to serve on the management committee of TFS, the owner of TNT.

Alternative Trading System. In addition to its Inbound Router function, Archipelago Trading Services operates an alternative trading system for trading in over-the-counter bulletin board securities (the "ATS OTC function"). The SEC approved a NYSE Arca rule proposal that permitted us to continue to own and operate the ATS OTC function of Archipelago Trading Services for a period of 60 days following the closing of the PCX Holdings acquisition. We intend to obtain permanent approval of the ATS OTC function.

Our Technology and Intellectual Property

Technology

The NYSE and NYSE Arca each employs a wide range of technologies which are crucial to our business. Technology enables us to maintain our competitive position and regulatory effectiveness and the confidence of our investors in the reliability and integrity of our trading platforms and markets. We are committed to the ongoing development, maintenance and use of technology and to providing our customers with technological solutions. Our technology is subject to oversight by the SEC, through the SEC's Automation Review Program.

In 2005, across all information technology categories inclusive of software development and network and data center infrastructure, the NYSE incurred, on an operating basis, information technology expense of approximately \$362 million and capital investments totaled approximately \$52 million.

Our technological initiatives are focused on satisfying each of the objectives set forth below:

Functionality our business-driven requirements should be delivered on time and with minimal defects;

Performance our systems should provide fast, competitive response times;

Capacity/Scalability our systems should be capable of supporting present needs and expanding to meet projected demands;

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Reliability the availability and performance should satisfy our goals and objectives; and

Total cost of ownership our systems and operating environment should be managed with a competitive cost structure.

Our position in the capital markets requires substantial investments in business continuity, including back-up data centers, back-up trading floors and physical and information security. These investments have increased substantially following the terrorist attacks of September 11, 2001. Business drivers for our technology investments include:

continual functional and performance improvements to our execution services and information products to address customer needs and the evolving competitive trading environment;

state of the art regulatory technology in support of market surveillance, member organization regulation and enforcement;

the expectations for excellent systems reliability and resiliency to maintain investor trust and confidence;

substantial investments in systems capacity to ensure that the market can maintain investor access to the market during very unusual peaks in trading activity; and

competitive cost structures for our systems and operating infrastructure.

Data Centers

To enhance the capacity and reliability of our systems, we have established data centers located in Chicago, Illinois, New York, New York, San Francisco, California, and Northern New Jersey totaling approximately 125,000 square feet in size. We help ensure the integrity of our data network through a variety of methods, including access restrictions and firewalls. We monitor traffic and components of our data network, and we use an application to detect network intrusions and monitor external traffic. Customer circuits and routers are monitored around the clock and anomalies in customer circuits are reported to our staff and carrier support personnel for resolution.

NYSE Trading Technology

The NYSE's trading systems include the following major components:

Display Book®, which is a high-performance trading system used for automatic quotation of incoming limit orders and the NYSE Direct+® automatic execution service. It also provides a set of tools that are used by specialists and their trading assistants to keep track of all incoming market and limit orders and provide information display, order management capabilities, research tools, trade execution, access to regional exchanges and quote dissemination;

NYSE Direct+®, which is an automatic-execution service for non-Exchange Traded Funds (or ETF) limit orders of up to 1,099 shares (with a maximum supported order size of 3,000,000 shares for exchange traded funds (or ETFs) and similar securities) that enables users to opt for an immediate execution at the best bid or offer, without a fee and with anonymity and speed;

SuperDot®, which is a system that processes approximately 99% of electronic market and limit orders received from member organizations and routes them to broker systems or Display Book®;

Broker Booth Support System®, which is a full-service order management system supporting straight-through electronic order processing and reporting for member organizations on the floor of the NYSE;

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Common Message Switch, which provides member organization access to the NYSE's order processing systems for routing and processing of orders that are destined for the Display Book® system or the Broker Booth Support System®;

NYSE e-Broker® Handheld Data Devices, which are mobile wireless handheld devices running the NYSE e-Broker application that permits member organizations on the floor to receive orders, access the Display Book®, report transactions on the floor, and generate messages to customers regarding current market conditions; and

SFTISM, a product of SIAC, which offers financial institutions a resilient connection to the NYSE through a diversified set of major telecommunications providers. SFTISM offers designated access points throughout the U.S. and through a highly resilient and redundant infrastructure that routes around failed circuits automatically. Network security is provided by a multi-tier security architecture known as NYSE Common Access Point®, which allows secure external access to all NYSE products and services.

NYSE Arca Electronic Trading Technology

Trading Platform. NYSE Arca operates its electronic trading platform on mid-range Sun Microsystems servers. Our industry leading system is designed to accept up to 16,000 orders per second and to provide up to 1,000 simultaneous customer connections. During 2005, our system handled an average of approximately 38.1 million orders daily and 3.5 million trades daily, with a capacity to handle 20.0 million trades daily.

Connection Options. Customers can connect to NYSE Arca through a wide variety of order management systems, third party private networks and service bureaus.

Interface options. We offer our customers different ways of interfacing with NYSE Arca. These include FIX Gateway Interface and RealTick® Interface. Through the FIX Gateway, our customers can access NYSE Arca using their existing trading system and third party vendors. The Financial Information eXchange (FIX) protocol is a messaging standard developed specifically for real-time electronic exchange of securities trading information. NYSE Arca confirms a customer's FIX connectivity through NYSE Arca Certification Testing.

Intellectual Property

We own the rights to a large number of trademarks, service marks, domain names and trade names in the United States and in foreign countries. We have registered many of our most important trademarks in the United States and in foreign countries. These include "New York Stock Exchange," "NYSE," "The Big Board," "NYSE Composite Index," "The World Puts Its Stock In Us," "Archipelago," "ArcaEx," "Archipelago Exchange," "Pacific Exchange," and images of the NYSE Trading Floor and building façade. Registration applications for some of these marks are pending in the United States and in foreign countries.

In addition, we own a number of registered U.S. trademarks or service marks which are used in our operations. There are also a number of pending applications.

We hold the rights to a number of patents, and have made a number of patent applications. However, we do not engage in any material licensing of these patents nor are these patents, individually or in the aggregate, material to our business operations.

We own the copyright to a variety of material. Those copyrights, some of which are registered, include printed and online publications, web sites, advertisements, educational material, graphic presentations and other literature, both textual and electronic.

Our Employees

As of February 28, 2006, we employed 1,975 full-time equivalent employees (excluding employees of SIAC). Approximately 170 of our employees are represented by the Office and Professional Employees International Union, Local 153. This number accounts for approximately 8.6% of our employees. Office and Professional Employees International Union, Local 153 represents clerical and facilities employees who are located at the New York Stock Exchange in New York, New York. The most recent collective bargaining agreement expired on November 5, 2005, and was extended through December 15, 2005. To date, no agreement on a further extension or successor has been reached. On February 15, 2006, a last and final offer for a successor agreement was presented to Office and Professional Employees International Union, Local 153. A successor agreement, or lack thereof, could cause our operating costs to increase, or, if no agreement is reached, our operations possibly could be disrupted. Overall, we consider our relations with our employees to be good.

INDUSTRY OVERVIEW

General

Traditional Market Centers

The U.S. capital markets consist of several market centers that systematically bring together buyers and sellers for the purpose of buying and selling securities. Generally, market centers are typified by the type of security products listed for trading on the market. Historically, stock markets like the NYSE operated primarily on a trading floor with all trades in a particular stock taking place in a specific place on the floor through or under the supervision of a designated dealer known as a specialist. A specialist oversees trading and is required to maintain a fair and orderly market, acting as both a market maker and auctioneer.

In 1971, the National Association of Securities Dealers Automated Quotation system, or Nasdaq, an electronic quotation network without a physical trading floor, was introduced as an enhancement of the traditional telephone-based over-the-counter market.

Electronic Trading

In 1996, the SEC adopted the order handling rules which allowed a number of electronic trading systems (including the Archipelago ECN, the precursor of ArcaEx and NYSE Arca), to emerge and compete with traditional market centers. These electronic networks included ECNs and other alternative trading systems, which provide an efficient means of access to market centers. Innovations in technology and telecommunications have increased the speed of communications and the availability of information, facilitated the globalization of commerce, and lowered transaction costs. New methods enable investors to access and participate in the equity securities markets more easily and quickly and less expensively. These developments, combined with the implementation of the order handling rules, have led to significant growth in electronic trading. However, the impact of electronic trading has been varied with respect to NYSE-listed equity securities and Nasdaq-listed equity securities. Electronic trading has thus far had a more significant impact on the market structure of the Nasdaq market and today much of the volume in Nasdaq listed securities is handled by electronic trading systems like NYSE Arca. However, electronic trading in NYSE-listed securities continues to grow on NYSE Direct+®, competing crossing systems and ECNs.

Recent Trends and Developments

In recent years, there have been a number of strategic alliances and consolidations among stock market participants, including Archipelago's merger with REDIBook ECN LLC and acquisition of PCX Holdings, Nasdaq's acquisition of both INET and Brut, LLC, and the merger of the NYSE and NYSE Arca.

In addition, there has been a recent trend among some large banks and brokerage firms of investing in securities market centers and ECNs including:

In June and August 2005, Merrill Lynch, Citadel Derivatives Group LLC, Citigroup, Credit Suisse, Morgan Stanley and UBS acquired stakes in the Philadelphia Stock Exchange, Inc.

On August 25, 2005, the Boston Stock Exchange announced the formation of a joint venture with Fidelity Brokerage Co., Lehman Brothers Holdings Inc., Credit Suisse and Citigroup to launch an electronic stock exchange to be named the Boston Equities Exchange, or BeX.

In January 2006, Citigroup announced the purchase of OnTrade, Inc., an ECN, which it intends to use to develop an electronic stock transaction network expected to launch during the first half of 2006.

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Also, the SEC recently approved Nasdaq Stock Market Inc.'s application to operate as a national securities exchange, allowing it to separate from its longtime regulator and owner, the NASD. Nasdaq will now be permitted to operate a new subsidiary, the Nasdaq Stock Market, as an SRO. Operating as an exchange means the Nasdaq Stock Market will function according to its own trading, listing, membership and other rules, with its own members and its own regulations.

U.S. Equities Market

Trading Environment

Over the long term, the U.S. equities markets have experienced a steady growth in trading volumes, although growth has been interrupted, from time to time, by volume declines resulting from weak economic performance and related factors.

For example, from 1995 to 2000, the major U.S. equities market indices experienced substantial growth. The growth in equity trading volumes resulted from a number of factors, including strong economic conditions and new methods for investing. Technological innovation, including the increasing importance of electronic trading platforms and the resulting drop in transaction costs, has further stimulated trading activity. New technology also allowed development of high-volume electronic trading strategies, which have helped increase daily trading volumes.

This period of growth was followed by a period of severe decline and significant volatility in the prices of equity securities between 2000 and early 2003. The weak and uncertain economic climate, combined with corporate governance and accounting concerns, contributed to generally lower equity securities prices, decreased corporate activity, increased market volatility, and a generally more difficult business environment. In 2003, however, overall volume in U.S. equity markets increased slightly, and this trend continued in 2004 and 2005. Trading volumes in U.S. equity markets increased by 6.9% in 2004 compared to 2003, and total volumes increased another 5.9% in 2005 compared to 2004. Consolidated volumes in NYSE-listed securities increased 4.9% in 2004 compared to 2003, and 12.8% in 2005 compared to 2004. Nasdaq trading volume increased by 7.7% between 2003 and 2004, yet it declined by 0.2% in 2005 compared to 2004. Prices strengthened in 2003 and 2004, and the major U.S. equity market indices posted back-to-back yearly gains for the first time since 1999. However, in 2005, the Dow Jones Industrial Average decreased 0.6%, while the Nasdaq Composite Index gained 1.4%, the S&P 500 Stock Index added 3.0% and the NYSE Composite Index rose 7.0%.

Trading in NYSE-Listed Securities

The market centers that execute and report trades in NYSE-listed securities through the Consolidated Tape Association Plan ("CTA Plan") include the NYSE, NYSE Arca, the AMEX, the Boston Stock Exchange, the Chicago Stock Exchange, the Chicago Board Options Exchange, the National Stock Exchange, Nasdaq Stock Market (which at present reports executions in listed securities effected off of exchanges as well as activity on the Nasdaq Market Center, INET and Brut, LLC) and the Philadelphia Stock Exchange. These market centers, as well as ECNs and other market participants, have access to the Intermarket Trading System ("ITS"), enabling them to route trading interest (through ITS) to publicly displayed quotes in all ITS participant markets trading U.S. exchange-listed stocks.

The NYSE, like other floor-based exchanges, is an auction driven marketplace and trading is conducted in a single physical location with a single specialist in each stock and floor brokers executing customer orders in a continuous market. The specialist is required to maintain a fair and orderly market, acting as a full-time liquidity provider and dampening price volatility by using capital, subject to stabilization rules to buy or sell against the prevailing trend. In contrast, NYSE Arca and other electronic market centers do not maintain a physical trading floor, and instead link traders to multiple

U.S. market centers electronically. However, certain of these electronic market centers, such as NYSE Arca, also employ an auction-driven order execution structure.

Floor based exchanges are, to varying degrees, integrating electronic trading into their floor based models. Approximately 11.4% of the NYSE's total trading volume for the year ended December 31, 2005 was executed electronically on NYSE Direct+®, our electronic trading platform. Electronic trading on the NYSE is expected to increase with the implementation of the NYSE Hybrid MarketSM, which is intended to combine the best features of auction markets and electronic markets. The NYSE Hybrid MarketSM is intended to provide investors greater access, faster executions and more trading choices through greater use of technology, while enhancing the benefits provided by specialists and floor brokers. For a more detailed discussion of the NYSE Hybrid MarketSM, see " Business Information About the NYSE The NYSE Hybrid Market Initiative."

Trading in Nasdaq Listed Securities

The market centers that execute and report trades in Nasdaq-listed securities through the Nasdaq OTC/UTP Plan include the Nasdaq Stock Market, NYSE Arca, AMEX, the Chicago Stock Exchange, the Boston Stock Exchange, the National Stock Exchange, the Philadelphia Stock Exchange and the NASD's Alternative Display Facility (which is a quoting and trading facility only). The unlisted trading privilege ("UTP"), is a right, provided by the Exchange Act, that permits securities listed on any national securities exchange to be traded by other such exchanges. The NYSE is not a participant in the OTC/UTP Plan and, as such, does not provide access for trading Nasdaq listed securities; however, access is available through NYSE Arca.

Trading in Nasdaq-listed securities is conducted among a group of electronic and floor-based markets. Nasdaq also uses a decentralized multiple market maker model where market makers can internalize order flow (or fill an order with the market maker's own inventory). A number of electronic trading systems emerged during the mid-1990s as regulatory changes and technology advances paved the way for ECNs, including the Archipelago ECN, the predecessor to NYSE Arca, to compete with Nasdaq. The technology capabilities of ECNs provided benefits including fast automated execution, certainty, anonymity and low-cost trading. Greater connectivity and smart order routing allowed for order flow to migrate more freely across competing market venues. In addition, growing volumes in the most liquid Nasdaq stocks enabled more trades to match on electronic agency systems without dealer intervention. These developments led to dramatic growth in electronic trading and resulted in a shift in liquidity away from Nasdaq toward ECNs, particularly in the most actively traded Nasdaq listed stocks. Intense competition for order flow among participants led to significant pricing pressure, including lower transaction fees and the introduction of "liquidity payments" to customers who added system liquidity by posting buy orders or sell orders.

The key factor in the growth of competition in Nasdaq-listed securities was the SEC's adoption of the order handling rules in 1996. These rules provide a specified role for qualified ECNs. The order handling rules deal specifically with the processing of limit orders, which are orders with an associated limit price above which a buyer, or below which a seller, will not trade. Under the order handling rules, a market maker that receives a limit order better than its own published quote, or at the same price as its published quote for more than a *de minimis* size, must generally execute the order, incorporate the limit order price into its published quote or pass the order on to an ECN for public display and execution access. The rules created opportunities for the development of qualified ECNs, including NYSE Arca, to which Nasdaq market makers could route certain customer limit orders in order to comply with the new rules. For this reason, and due to the other benefits of an electronic platform, such as faster execution and anonymity, qualified ECNs began to evolve as alternative trading venues for trade execution.

Listing Services

Registered national securities exchanges also provide issuer listing services that provide a venue where issuers may list their securities for trading. Although the regional exchanges provide a listing venue, the primary U.S. markets for issuers to list are the NYSE and Nasdaq Stock Market, and, to a lesser extent, AMEX. Only registered national securities exchanges are permitted to provide a listing venue for issuers.

The NYSE has the highest overall listing standards of any securities marketplace. In 2005, the NYSE obtained over 90% of all domestic initial public offerings that qualified to list under the NYSE's standards, as measured by the aggregate proceeds raised by companies listing on U.S. exchanges. Building on the NYSE's premier brand and listing business, we plan to generate new revenue from the development of a listings venue on NYSE Arca for smaller-cap firms that do not initially qualify for the NYSE's listing standards. We estimate that approximately two-thirds of the companies that currently list on Nasdaq do not meet the NYSE's listing requirements. The creation of an NYSE Arca listings platform will provide us with an opportunity to target a select universe of these companies, which historically have not had the choice to list on a platform affiliated with the NYSE.

Market Data Services

Registered national securities exchanges also participate in the collection, consolidation and dissemination of trade and quote data and earn revenue generated from the sale of such data. These fees are referred to as "tape fees." Market data fees are distributed among exchange participants pursuant to the terms of the various national market system plans the CTA Plan and CQ Plan in NYSE- and AMEX-listed securities, and the Nasdaq OTC/UTP Plan in Nasdaq listed stocks. Under the CTA Plan and CQ Plan, after costs are deducted, market data fees are distributed among participants based on their respective number of trades. Under the OTC/UTP Plan in Nasdaq listed stocks, after costs are deducted, market data fees are distributed among participants based on their respective number of shares and trades. The NYSE participates only in the CTA Plan and CQ Plan, and is currently not a UTP Plan participant. NYSE Arca is a member of the CTA Plan and CQ Plan, and the Nasdaq OTC/UTP Plan and shares in the revenue generated from each of these plans.

In addition to sharing revenue generated by the sale of consolidated market data under the data plans, these registered national securities exchanges sell other proprietary data to vendors and market participants. Certain exchanges also have established programs to share the market data revenue they receive with market participants that report trades to them in AMEX-listed and Nasdaq listed securities to compete for order flow.

Regulation NMS, which is discussed below, will update the formulas for allocating revenue derived from market data fees by, among other things, including a component that reflects quoting activity and eliminating allocations for manual quotes. Regulation NMS also requires the creation of advisory committees composed of non-SRO representatives to the data plans, and authorizes market centers to distribute their own trade data independently of the data plans.

Regulation NMS

In April 2005, a new series of market reform proposals, collectively known as Regulation NMS, were adopted by the SEC. Regulation NMS will govern certain aspects of trading on securities market centers, and its provisions are scheduled to become effective at various points throughout 2006. Regulation NMS is designed to modernize the regulatory structure and create greater uniformity in the U.S. equity markets. Regulation NMS could have a significant impact on the industry. For a detailed discussion of the provisions of Regulation NMS, see " Regulation Recent Regulatory Developments."

U.S. Equity Options Markets

The market for trading U.S. equity options has increased dramatically over the past 10 years at a compound annual growth rate of 22.9% from 1995 to 2005, with average daily contract volumes increasing 26.3% in 2005, according to the Options Clearing Corporation. Various factors have contributed to the growth in options trading volumes including increasing investor awareness and broader participation, rising electronic trading and technology deployment, tighter spreads and lower transaction fees, and deeper liquidity. In recent years, trading options has become faster, cheaper, more transparent and more efficient.

There are currently six U.S. equity options exchanges competing for order flow (or orders committed to a particular market) in many of the same equity options products. The original four traditional floor-based options exchanges include AMEX, the Chicago Board Options Exchange, the Pacific Exchange and the Philadelphia Stock Exchange. In January 2005, Archipelago entered into an agreement to acquire the parent company of the Pacific Exchange. The other two U.S. equity options exchanges are the International Securities Exchange and the Boston Options Exchange, which are fully electronic exchanges. Nasdaq has announced its intention to allow customers to route options orders to major option exchanges by the first quarter of 2006. Nasdaq's proposed service is not expected to provide for option order matching. Rather, it is expected only to distribute orders to other U.S. option markets, such as NYSE Arca, for execution.

All of the traditional floor based exchanges have adopted hybrid models, incorporating greater electronic trading capabilities to complement floor trading and improve access for customers, broker/dealers and market makers. For example, in October 2003, NYSE Arca introduced its PCX PLUS electronic platform to accommodate independent quotes from market makers.

The SEC regulates the options industry. It is a requirement under the Options Intermarket Linkage Plan and SRO rules that options exchanges avoid executing trades at prices inferior to the best available price, called a "trade through." In early 2003, options exchanges began sending orders through an intermarket linkage that is governed by the Options Intermarket Linkage Plan and is designed to facilitate the routing of orders between exchanges and improve execution quality.

Greater competition among equity options markets since 1999 has resulted in a proliferation of incentive arrangements, including payment for order flow. Recently, NYSE Arca announced plans to initiate a pilot program to begin quoting and trading listed options in certain ETFs in penny increments, instead of five or ten cent increments, subject to SEC approval. The move to penny pricing could have a significant impact on the competitive environment as orders are directed to the markets with the most aggressive quotes. The change may also add significant quote traffic and require substantial additional bandwidth capacity. The impact of penny pricing in options has been the subject of significant debate, and this proposal may not be approved by the SEC in the near future. For further discussion of the potential effect of the SEC rejecting this proposal, see "Item 1A. Risk Factors Risks Relating to Our Business NYSE Arca has had discussions with SEC staff regarding a potential pilot program to trade and quote options on certain ETFs in penny increments, but any proposal that NYSE Arca may make on this issue may be denied by the SEC."

U.S. Fixed Income Markets

In contrast to the equity and options markets, the fixed income markets are more fragmented and opaque. Historically, the fixed income markets have traded over-the-counter with institutional investors and broker-dealers executing transactions via telephone and fixed income securities changing hands through intermediaries known as inter-dealer brokers. Electronic fixed income securities trading systems have emerged and are creating more centralization, improving transparency and increasing the speed of execution. These systems operate as quasi-exchanges defined by centralization of orders, more open

market information and more standardized rules. Currently, much of the electronic trading in fixed income securities occurs in the highly liquid U.S. Treasuries market. Voice brokering remains more prominent in other fixed income securities markets, such as corporate and municipal bonds.

The NYSE was an early pioneer in providing electronic fixed income trading through the Automated Bond System (ABS), which was launched in 1977. Most ABS volume is in odd-lot corporate bonds, but the system also offers trading in convertible, government and municipal bond trading. ABS is an order-driven system that allows broker-dealers to trade directly with each other on an electronic basis, with real-time reporting of all quotations, trade prices, and quantities. These broker-dealer clients represent the principal source of secondary market liquidity in sovereign and corporate bonds.

Key competitors to ABS include inter dealer brokers that conduct business over the telephone and electronically, other multi-dealer trading companies and electronic trading venues such as MarketAxess and BondDesk. Currently, only bonds that are listed companies that meet our bond listing standards are eligible for trading on the NYSE's ABS system, which has limited ABS growth in recent years, with the total value traded on ABS at \$917 million in 2005, compared to \$1.3 billion in 2004 and \$2.5 billion in 2003.

On July 8, 2005, the SEC published for comment a proposed rule change that, if approved, would allow the NYSE to trade a substantially greater inventory of corporate bonds on ABS since bonds would not be required to be listed in order to be traded, and would therefore render most of the corporate bonds issued by NYSE-listed equity issuers and their wholly owned subsidiaries eligible for trading on the NYSE's ABS system. The comment period ended on August 15, 2005, and the NYSE is awaiting further comment from the SEC on the proposal.

Additional Market Trends and Developments

The following are additional market trends and developments that are common to all of these markets:

Globalization. One of the most significant industry developments is the globalization of world markets. The growth of global capital markets, combined with the emergence of ECNs and other trading networks, has posed a significant challenge to all exchanges and has resulted in greater competition for listing and trade execution among markets in different geographical areas. Financial institutions, investment firms and other financial intermediaries increasingly trade across national boundaries, in numerous markets and asset classes, outside traditional exchanges and even directly among themselves. This has led to increased competition between domestic exchanges within the United States, and between domestic and international exchanges, and to a demand for increased technological and regulatory cooperation between market centers in different jurisdictions.

Demutualization and Consolidation. Another common trend in the industry is demutualization and consolidation of market centers. In recent years, many market centers in both Europe and the United States (such as the London Stock Exchange and Nasdaq) have demutualized to provide greater flexibility for future growth. In addition, the number of new market entrants, the need to respond to the globalization of capital markets, and the desire to provide cross-border services to clients has led to a series of consolidations, both in the United States and abroad. For example, three exchanges in Paris, Brussels and Amsterdam combined in 2000 to create Euronext N.V., the first cross-border European exchange. In 2002, Euronext acquired LIFFE (the London International Financial Futures and Options Exchange) and BVLP (Bolsa de Valores de Lisboa), a Portuguese exchange. U.S. consolidation has largely been among participants in the cash equity markets, while some foreign exchanges have been combining across equity and derivatives markets and moving to a multi-product business model to broaden

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their revenue sources. In the United States, the major stock and derivatives markets remain separate, though customers, including the NYSE's customers, are increasingly seeking multi-asset class execution products.

Regulatory and Governance Changes. As mentioned above, Regulation NMS mandates a number of changes that could have a significant impact on the industry. See " Regulation Recent Regulatory Developments." There have also been changes in corporate governance standards that have affected the industry. Both regulators and the investing public have demanded greater transparency and stronger corporate governance in the securities industry.

Competition

The securities markets are intensely competitive, and competition may be expected to further intensify. We have numerous aggressive competitors, both domestically and around the world. We compete with other exchanges and markets, ECNs, market-makers and other execution venues based on various factors including best price, depth of liquidity, all-in cost, anonymity, speed, functionality and certainty of execution. In addition to competition for order flow, we compete with other exchanges and markets for listings, and we also compete in the market data products arena. Because some of our prospective competitors are not registered securities exchanges, they operate with less regulatory oversight than we do, enabling them to move with greater agility in response to changes in the markets or economic environment.

Equity Securities Trading. Our principal domestic competitors for trading listed equity securities include Nasdaq, AMEX and regional exchanges such as the Chicago Stock Exchange, the Boston Stock Exchange and the Philadelphia Stock Exchange. We also compete with ECNs and alternative trading systems such as POSIT, Pipeline Trading and Liquidnet. In addition, we also face competition for trading securities from broker-dealers, including some of our largest customers, that internalize order flow. Internalization of order flow occurs when a broker-dealer trades against its own customers' orders, thus decreasing trading volume on public securities markets. See "Item 1A. Risk Factors Risks Relating to Our Business We face numerous competitors, including both U.S. based and non-U.S. based competitors."

In recent years, the pricing model for trade execution for equity securities has changed in response to competitive market conditions. For example, in an effort to capture a greater share of the trading of Nasdaq-listed securities, for a brief period of time beginning in late 2004, Nasdaq aggressively discounted or eliminated fees for its high-volume customers (customers providing more than a daily average of 20 million shares) in return for certain trading activity on its systems. This aggressive pricing strategy significantly decreased Nasdaq's profit margin for this period of time and contributed in part to a slight decline in NYSE Arca's share of trading of Nasdaq listed securities in 2005.

However, as of February 1, 2006, Nasdaq has changed its fee structure and dramatically increased the threshold levels required for high volume customers to qualify for Nasdaq's discounted fee structure. As a result, we anticipate fewer high volume customers will be able to qualify for Nasdaq's discounted pricing structure and more customers will be subject to Nasdaq's standard fees, which are comparable to those charged by NYSE Arca.

Our current competition may intensify if the consolidation trend in the securities industry continues and other industry participants form joint ventures or consortia to provide services similar to those that we provide, or become competitive with us through acquisitions. In particular, Nasdaq completed its acquisition of INET, an ECN, on December 8, 2005. This combination resulted in a substantial combined trading share of Nasdaq-listed trading volume. We may also face competition

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from new entrants into the markets in which we compete, or from new initiatives from existing market participants, including established securities exchanges. For example:

In June and August 2005, the Philadelphia Stock Exchange entered into strategic alliances with Merrill Lynch, Citadel Derivatives Group LLC, Citigroup, Credit Suisse, Morgan Stanley and UBS. According to the Philadelphia Stock Exchange, these investments will advance its goal of growing its business and technology.

On August 25, 2005, the Boston Stock Exchange announced its intention to launch a new stock trading network called the Boston Equities Exchange, or BeX, in connection with a joint venture entered into with Fidelity Brokerage Co., Lehman Brothers Holdings Inc., Credit Suisse and Citigroup.

In August 2005, Nasdaq announced its intention to allow customers to route options orders to major options exchanges by the first quarter of 2006.

On November 17, 2005 the International Securities Exchange, Inc. ("ISE"), a U.S. equity options exchange, joined the OTC/UTP Plan, which will allow the ISE to enter into the equities trading market and to trade Nasdaq listed securities. On November 10, 2005 the ISE also announced its intention to join the CTA Plan and CQ Plan, which will allow the ISE to trade NYSE and AMEX-listed securities.

In January 2006, BATS Trading, Inc., a company located in Kansas City, launched a new alternative trading system.

In January 2006, Citigroup acquired OnTrade Inc., an electronic communications network and announced its intention to use OnTrade to launch its own electronic stock trading network during the first half of 2006.

On March 10, 2006 Nasdaq made a bid for the London Stock Exchange (which was subsequently withdrawn).

Listings. Our principal domestic competitors for corporate listings include Nasdaq and AMEX. In addition, we face competition for listings of non-U.S. issuers from a number of non-U.S. stock exchanges, most prominently the London Stock Exchange and the Hong Kong Stock Exchange, as well as Euronext N.V., Deutsche Börse Group, and exchanges in Tokyo, Hong Kong, Singapore and Australia.

Although the NYSE has continued to enjoy its traditional level of success in the business of listing companies new to the market, competition in this area has increased substantially in recent years. For example, Nasdaq recently unveiled plans to create new tiers of listing standards for its listed companies to help it better compete with the NYSE; Nasdaq plans to launch its new Nasdaq Global Select Market on July 1, 2006. In addition, in an effort to increase the services offered to its listed companies, Nasdaq recently acquired both Shareholder.com, an investor relations firm, and Carpenter Moore, an insurance brokerage firm, and also established a joint venture to develop independent research for its listed companies. As a result of this heightened competition, the NYSE has had to devote increased resources to the business. In addition, other listings, such as structured products and ETFs, have traditionally been less of a focus, and other markets, particularly AMEX, have emphasized these listing niches.

The NYSE also competes for transfer listings (which are listings of companies that are already listed on Nasdaq or AMEX that are also eligible for listing on the NYSE). The NYSE markets the benefits of a NYSE listing to these companies. Since the beginning of 2000, the NYSE has listed 161 publicly traded companies from other U.S. markets as transfers to the NYSE. This does not include 61

ETFs that Barclays Global Investors announced in July 2005 it would transfer to the NYSE, the first 40 of which were transferred in November 2005.

In addition, the NYSE competes with other exchanges around the world, such as the London Stock Exchange, for secondary listings of securities of non-U.S. companies. Competition for secondary listings has become increasingly intense due to legal and regulatory requirements associated with listing securities in U.S. securities markets. For example, in addition to its Main Market for issuers, the London Stock Exchange maintains the Alternative Investment Market (AIM), which is a listing platform without financial or corporate governance standards that has attracted over 1,100 issuers over the past few years, including 29 from the United States. The London Stock Exchange specifically markets AIM's ability to provide a listing platform that enables companies to bypass compliance with the Sarbanes-Oxley Act as a primary benefit of listing on AIM.

Fixed Income and Options. Key competitors to the NYSE in fixed income include inter dealer brokers that conduct business over the telephone and electronically, other multi-dealer trading companies and electronic trading venues such as MarketAxess and BondDesk. Our principal competitors for the trading of options are the ISE, the Chicago Board Options Exchange, Inc., AMEX, the Philadelphia Stock Exchange and the Boston Options Exchange. Options exchanges are also increasingly facing competition from internalization by broker-dealers.

REGULATION

Overview

Federal securities laws have established a two-tiered system for the regulation of securities markets and market participants. The first tier consists of the SEC, which has primary responsibility for enforcing federal securities laws and regulations and is subject to Congressional oversight. The second tier consists of the regulatory responsibilities of self-regulatory organizations, or SROs, over their members. SROs are non-governmental entities that are registered with, and regulated by, the SEC.

Securities industry SROs are an essential component of the regulatory scheme of the Exchange Act for providing fair and orderly markets and protecting investors. To be a registered national securities exchange, an exchange must be able to carry out, and comply with, the purposes of the Exchange Act and the rules and regulations under the Exchange Act. In addition, as an SRO, an exchange must be able to enforce compliance by its members, and individuals associated with its members, with the provisions of the Exchange Act, the rules and regulations under the Exchange Act and its own rules.

Broker-dealers must also register with the SEC, and member organizations must register with an SRO, submit to federal and SRO regulation, and perform various compliance and reporting functions.

The NYSE and NYSE Arca, as national securities exchanges and SROs, are registered with, and subject to oversight by, the SEC. Accordingly, the NYSE and NYSE Arca are regulated by the SEC and, in turn, are the regulators of their member organizations. The regulatory responsibilities of both the NYSE and NYSE Arca are conducted by NYSE Regulation. For a discussion of the responsibilities and structure of NYSE Regulation see "NYSE Regulation."

SEC Oversight

The trading of securities in the United States is subject to vigorous regulation by the SEC, which oversees the regulatory functions of all registered securities exchanges and associations. It conducts on-site inspections through the Office of Compliance Inspections and Examinations and other divisions on a regular basis and evaluates the effectiveness of regulatory programs, making recommendations for improvements and enhancements. In particular, the SEC has broad-ranging oversight authority over the regulatory programs of the NYSE and NYSE Arca with respect to examination of member organizations, market surveillance, enforcement and compliance with listing standards. Each of the NYSE and NYSE Arca, as SROs, is potentially subject to regulatory or legal action by the SEC at any time. The SEC has broad enforcement powers, including the power to censure, fine, issue cease-and-desist orders, prohibit our exchanges from engaging in some of their businesses or suspend or revoke their designation as registered national securities exchanges. Actions by the SEC can therefore result in the imposition of additional obligations on the NYSE and NYSE Arca to expend additional money on regulatory resources and technology.

The NYSE and NYSE Arca are subject to the record keeping requirements of Section 17 of the Exchange Act, including the requirement pursuant to Section 17(b) of the Exchange Act to make available their records to the SEC for examination.

Section 19 of the Exchange Act provides that the NYSE and NYSE Arca must generally submit to the SEC for approval proposed changes to their respective rules, practices and procedures, including revisions of the certificate of incorporation and constitution, as applicable, of the NYSE and NYSE Arca. The SEC will typically publish the proposal for public comment, following which the SEC may approve or disapprove the proposal, as it deems appropriate. The SEC's action is designed to ensure that the SRO's rules and procedures are consistent with the Exchange Act and the rules and regulations under the Exchange Act.

Although NYSE Group is not a registered SRO, it is the parent company of two SROs. As such, certain aspects of the certificate of incorporation, bylaws and structure of NYSE Group and its subsidiaries are subject to SEC oversight, including certain ownership and voting restrictions on its stockholders.

SRO Regulation of Member Organizations

In general, SROs are responsible for regulating their members through the adoption and enforcement of rules governing the business conduct and financial responsibility of their members. Each SRO must:

carry out and comply with the purposes of the Exchange Act and the rules and regulations of the Exchange Act; and

enforce compliance by its member organizations and individuals associated with its members, with the provisions of the Exchange Act, the rules and regulations of the Exchange Act and the rules of the exchange.

In this capacity, each SRO, such as the NYSE or NYSE Arca, acts as a regulator of its member organizations and must carry out certain regulatory activities, including:

establishing rules for the operation of the exchange;

inspecting its member organizations;

regulating market activity; and

adopting and enforcing rules governing the business conduct and financial responsibilities of its member organizations.

The rules of the exchange must also assure fair representation of its member organizations in the selection of its directors and administration of its affairs, and, among other things, provide that one or more directors be representative of issuers and investors and not be associated with a member of the exchange or with a broker or dealer. Additionally, the rules of the exchange must be adequate to ensure fair dealing and to protect investors, and may not impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Exchange Act. While these requirements are generally intended to safeguard the integrity of securities markets and the interests of public market participants, they do not specifically take into account or otherwise specifically protect the interests of NYSE Group stockholders, as such.

Recent Regulatory Developments

In November 2004, the SEC published for comment proposed rules, known as "Regulation SRO", that would require SROs, such as the NYSE and NYSE Arca, to implement certain corporate governance, transparency, oversight and ownership rules. If adopted, the rules would require, among other things, each SRO to submit to the SEC for approval its new or amended rules no later than four months following the date of publication of the final SEC rules in the Federal Register, and the SRO's rules would be effective no later than one year after this publication and approval. The SEC also published a concept release regarding the efficacy of self-regulation by SROs. The comment period on the proposals and concept release ended in March 2005.

In addition, on April 6, 2005, the SEC adopted Regulation NMS, which will alter in significant respects the regulatory environment governing the securities industry.

More information on the recent regulatory developments described below, including the full text of any documents published by the SEC, may be obtained from the SEC's website at the following address: <http://www.sec.gov>.

SEC Proposals Relating to Governance, Transparency, Oversight and Ownership

The SEC's proposed rules, in "Regulation SRO", included requirements relating to the structure and procedures of SROs, including proposals concerning:

the independence of directors;

the representation of members, issuers and investors on the board of directors and standing committees of the board of directors;

the effective separation of regulatory and business functions;

the establishment of procedures to prevent use of regulatory information for non-regulatory purposes; and

periodic public disclosure and reporting.

We do not know whether, or in what form, any of these proposals will be adopted. We have organized our corporate governance structure and ownership rules in substantial compliance with the proposed rules. However, any changes in the proposed rules or the adoption of a final Regulation SRO may result in changes to the manner in which we conduct our business and govern ourselves. The new reporting rules also could, among other things, make it more difficult or more costly for us to conduct our existing businesses or enter into new businesses. All SROs will be required to comply with any rules adopted as a result of the SEC's proposals.

SEC Concept Release

Simultaneously with the proposals described above, the SEC published a concept release exploring the efficacy of self-regulation by SROs. The SEC noted that, while competition in the U.S. securities industry has resulted in innovation in trading, lower trading costs and increased responsiveness to customers, it has also placed greater strain on the self-regulatory system and increased the perceived or actual conflicts inherent in the SRO model between the regulation of members and the realization of profits. The concept release discusses the inherent conflicts of interest between SRO regulatory operations, and members, market operations, issuers and stockholders, the costs and inefficiencies of multiple SROs arising from multiple and sometimes overlapping rules, inspection regimes and staff, the challenges of surveillance of cross market trading by multiple SROs, the funding SROs have available for regulatory operations and the manner in which SROs allocate revenue to regulatory operations. It also analyzes a number of alternative regulatory approaches.

Responses to SEC Proposals

The NYSE filed two comment letters with respect to the rule proposals and concept release and Archipelago (a predecessor to NYSE Arca) filed one comment letter jointly with other securities exchanges. Some of the proposals discussed in the concept release for reallocating regulatory responsibility could reduce the NYSE's self-regulatory authority and have a significant impact on us, our business and operating results, and the efficacy of the regulation of our member organizations.

Regulation NMS

On April 6, 2005, the SEC adopted Regulation NMS, which is expected to significantly alter the regulatory environment governing the securities industry. The provisions of Regulation NMS are described below and include the Order Protection Rule, Access Rule, Market Data Rule and Sub-Penny Rule.

In its final release, the SEC provided for extended compliance dates for each provision of Regulation NMS, specifically: (1) compliance with the Access Rule and Order Protection Rule will

begin with a small group of representative NMS stocks (which are stocks included in the national market system that can be traded on a variety of venues, including national securities exchanges, alternative trading systems and market-making securities dealers), with the first phase beginning June 29, 2006, with all securities being subject to the rule beginning August 31, 2006; (2) compliance with the Sub-Penny Pricing Rule was extended to June 29, 2006; and (3) compliance with the Market Data Rule will begin on September 1, 2006.

Order Protection Rule. The Order Protection Rule modernizes "trade-through" protections, which previously applied only to exchange-listed securities. It requires trading centers to establish, maintain, and enforce written policies and procedures that are reasonably designed to prevent trade-throughs on that trading center of protected quotations and, if relying on exceptions to the Order Protection Rule, that are reasonably designated to assure compliance with the terms of the exception. To qualify for protection, a bid or offer must be a quotation in an NMS stock (which is a security, other than an option, for which transaction reports are collected, processed and made available pursuant to an effective transaction reporting plan) that:

is displayed by an automated trading center and available for automatic execution;

is disseminated pursuant to an effective national market system plan; and

is an automated quotation that is the best bid or best offer of a national securities exchange, the best bid or best offer of Nasdaq, or the best bid or best offer of a national securities association other than the best bid or best offer of Nasdaq.

An "automated trading center" is essentially a market that executes an incoming order on an immediate basis without human intervention. A trade-through is defined as the purchase or sale of an NMS stock during regular trading hours at a price lower than a protected bid or higher than a protected offer. Displayed bids and offers not immediately accessible through automatic execution will not be protected from being traded through by any market under the Order Protection Rule. The Order Protection Rule also extends the trade-through provisions to Nasdaq-listed stocks.

The rule that currently applies makes no distinction between quotations available immediately for automated execution and those only available for manual execution. It also does not apply to Nasdaq-listed stocks. The Order Protection Rule also includes exceptions to the trade-through provisions for various specified kinds of orders and transactions.

Access Rule. The Access Rule sets forth new standards governing access to quotations in NMS stocks. It requires fair and non-discriminatory access to quotations and establishes a limit on access fees to harmonize the pricing of quotations across different trading centers. Specifically, the Access Rule establishes a limit on the access fees charged by trading centers when incoming orders execute against their displayed quotes and undisplayed interests at the best bid or offer to \$0.003 per share (30 cents per 100 share order) or, if the price of the best bid or offer is less than \$1.00, to no more than 0.3% of the quotation price per share. The Access Rule also requires SROs to establish, maintain and enforce rules that require their members to reasonably avoid displaying quotes that lock or cross any protected quotation in an NMS stock, or manual quotations that lock or cross quotations in NMS stocks and prohibit their members from engaging in a pattern or practice of displaying quotations that lock or cross quotations. A locked market occurs when, for example, the price to buy a stock is the same as the price to sell the stock. A crossed market occurs when the price to buy a stock is higher than the price to sell the stock.

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Market Data Rules and Plans. Regulation NMS updates the requirements for consolidating, distributing, and displaying market information, as well as amending the joint industry plans for disseminating market information to modify the formulas for allocating plan revenues and broaden participation in plan governance. The new formula allocates revenues to market centers based on the value of the quotes and trades for all securities rather than the current formula, which is based simply on the number of trades (as it relates to exchange-listed securities) or a combination of trades and shares (as it relates to Nasdaq-listed securities). The new rule gives market centers and their members the ability to distribute their own data independently with or without charging fees. However, market centers will still be required to provide their best bids and offers and last sale information for consolidated dissemination through the joint-industry plans. The Market Data Rule also requires the SROs participating in the market data consolidation systems to create advisory committees composed of non-SRO representatives to the joint industry plans.

Sub-Penny Rule. The Sub-Penny Rule prohibits market participants from displaying, ranking, or accepting quotations in NMS stocks that are priced in an increment of less than \$0.01, unless the price of the quotation is less than \$1.00.

NYSE Regulation

Overview

The NYSE and NYSE Arca are self-regulatory organizations, or SROs. As such, the NYSE and NYSE Arca are responsible for examining compliance with and enforcing the financial, operational and sales-practice rules and codes of conduct for members, member organizations and their employees, and have responsibility for regulatory review of their trading activities. In addition, the NYSE and NYSE Arca are responsible for enforcing compliance with their respective listing standards and corporate governance requirements by listed companies.

The regulatory responsibilities of the NYSE and NYSE Arca are conducted by NYSE Regulation, Inc., a separate not-for-profit subsidiary of NYSE Group. NYSE Regulation consists of the following five divisions and a risk assessment unit, employing approximately 745 people as of February 28, 2006:

Listed Company Compliance;

Member Firm Regulation;

Market Surveillance;

Enforcement; and

Dispute Resolution/Arbitration.

Activities of NYSE Regulation

Listed Company Compliance. The NYSE and NYSE Arca require their listed companies to meet their respective original listing criteria at listing, and to thereafter maintain continued compliance with their respective listing standards. The Listed Company Compliance division monitors and enforces compliance with these standards. The division is split into two parts:

the financial compliance group, which reviews a company's reported financial results both at the time of listing and thereafter to ensure that it meets original listing and continued-listing requirements; and

the corporate compliance group, which ensures that listed companies adhere to the highest standards of accountability and transparency, including governance requirements for

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configuration of corporate boards, director independence and financial competence of audit committee members.

The rules of the NYSE and NYSE Arca regulating the original and continued listing of companies are subject to review and approval by the SEC.

Member Firm Regulation. The Member Firm Regulation division conducts examinations of the more than 380 member organizations of the NYSE (representing 90% of the total public customer accounts handled by broker-dealers in the United States), and more than 45 members of NYSE Arca (for which it is the designated examining authority), for financial, operations and sales-practice compliance. In addition, the Member Firm Regulation division interprets and develops NYSE rules, develops and administers various industry qualifications and examinations, and administers the NYSE's continuing education programs for registered persons in the securities industry. As the primary self-regulator for its member organizations, Member Firm Regulation seeks to minimize duplication of effort with other regulatory organizations. Whenever feasible, examinations are conducted jointly with other self-regulatory organizations or responsibilities are allocated with the objective of increasing the cost effectiveness of self-regulation.

Market Surveillance. The Market Surveillance division is responsible for, among other things, monitoring equity insider trading activities on the facilities of the NYSE and, with respect to NYSE Arca, equity insider trading activities and options trading activities. Such monitoring of trading activities involves both real-time and post-trade review. The Market Surveillance division reviews transactions to determine whether auction-market rules and principles are being complied with and fairly maintained, and whether such transactions involve abusive or manipulative trading practices. The Market Surveillance division uses sophisticated computer technology to detect unusual trading patterns, and the staff of the Market Surveillance division also maintains a presence on the trading floor of the NYSE. Market Surveillance makes referrals to the NYSE Enforcement division and the SEC Division of Enforcement, as appropriate.

Enforcement. The Enforcement division investigates and prosecutes violations of NYSE and NYSE Arca rules and U.S. federal securities laws and regulations. Enforcement cases include customer-related sales practice violations, breaches of financial and operational requirements, books and records deficiencies, reporting and supervisory violations, misconduct on the trading floor, insider trading, market manipulation and other abusive trading practices. Sources of cases for the Enforcement division include examination findings referred by the Member Firm Regulation division, surveillance reviews referred by the Market Surveillance division, arbitration referrals from the Dispute Resolution/Arbitration division, reviews of customer complaints by the Enforcement division, settlements and reporting by member organizations, referrals from the SEC and complaints by members of the investing public and securities professionals. In 2005, the Enforcement division prosecuted 196 NYSE cases, comprised of 138 actions against individuals and 58 actions against member organizations. All settlements negotiated between Enforcement and a respondent must be reviewed and approved by the Office of the Hearing Board, which is independent of NYSE Regulation management, before becoming final. Contested hearings are also conducted before hearing panels under the purview of the Hearing Board, which operates much like an administrative tribunal.

Dispute Resolution/Arbitration. The Dispute Resolution/Arbitration division provides a neutral forum for the resolution of securities industries disputes in more than 46 cities throughout the United States. For more than 125 years, the NYSE has used arbitration to resolve disputes between investors and member organizations/brokers and between member organizations and their employees. Arbitration enables a dispute to be resolved quickly and fairly by impartial arbitrators, who are knowledgeable and trained in the art of resolving controversy. Mediation is another dispute resolution option that the NYSE offers. This is a voluntary process in which a neutral mediator meets with the parties and attempts to help them reach a settlement. Mediation is not binding, is not adversarial and no record of

the mediation is kept. NYSE Arca also provides an arbitration forum, which currently operates separately from NYSE Regulation Dispute Resolution/Arbitration.

Structure, Organization and Governance of NYSE Regulation

NYSE Regulation has undertaken the regulatory responsibilities of the NYSE and NYSE Arca pursuant to agreements with each entity. NYSE Regulation also has an explicit agreement with NYSE Group, NYSE LLC and NYSE Market to provide adequate funding for NYSE Regulation. Moreover, under the operating agreement of the NYSE, no regulatory fees, fines or penalties collected by NYSE Regulation may be distributed to NYSE Group or any entity other than NYSE Regulation.

NYSE Regulation incorporates several structural and governance features designed to ensure its independence, given the status of NYSE Group as a for-profit and listed company. For example, the NYSE Group's certificate of incorporation contains ownership and voting limitations to prevent any stockholder from having undue control over NYSE Group (and therefore the SROs owned by NYSE Group). See our certificate of incorporation, which contains provisions that require that:

we give due regard to the preservation of the independence of the self-regulatory function of our SROs and to their obligations to investors and the general public;

we not take any action that would interfere with the effectuation of any decisions by the board of directors of our SROs relating to their regulatory functions (including disciplinary matters) or that would interfere with the ability of its SROs to carry out their respective responsibilities under the Exchange Act;

we generally keep confidential information pertaining to the self-regulatory function of our SROs that comes into our possession;

we, our directors and officers, and those of our employees whose principal place of business and residence is outside of the United States, submit irrevocably to the jurisdiction of the U.S. federal courts and the SEC for the purposes of any suit, action or proceeding pursuant to the U.S. federal securities laws, and the rules and regulations thereunder, commenced or initiated by the SEC arising out of, or relating to, the activities of its SROs; and

our directors, officers and employees, in discharging their responsibilities in such capacity, cooperate with the SEC and our SROs pursuant to their regulatory authority.

In addition, NYSE Regulation operates as a not-for-profit entity, rather than as a for-profit entity. The chief executive officer of NYSE Regulation is also not permitted to be an officer or employee of any unit of NYSE Group other than NYSE Regulation and reports solely to the NYSE Regulation board of directors. To reduce the conflicts that arise from "self listing," NYSE Regulation is responsible for all listing compliance decisions with respect to NYSE Group as an issuer, and NYSE Regulation provides the SEC with periodic reports summarizing its monitoring of our common stock. These reports are approved by the NYSE Regulation board of directors, including a separate approval by the directors of NYSE Regulation who are not directors of NYSE Group.

NYSE Regulation has adopted structural and governance standards in compliance with applicable U.S. federal securities laws, and in particular, Section 6 of the Exchange Act with respect to fair representation of members. Such structure and governance standards will be adjusted to comply with any rules finally adopted by the SEC following its proposals relating to governance, transparency, oversight and ownership of SROs.

These structural and governance arrangements include the following:

NYSE Regulation is a separately incorporated, not-for-profit entity;

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each director of NYSE Regulation (other than its chief executive officer) must be independent under the independence policy of the NYSE Group board of directors;

a majority of the members of the NYSE Regulation board of directors and its compensation and nominating committee must be persons who are not directors of NYSE Group; and

NYSE Regulation funds its programs, including surveillance, examination, testing and continuing education services, through fees assessed directly on member organizations. NYSE Regulation is also compensated for the regulatory services provided to the NYSE and NYSE Arca pursuant to agreements with each entity.

ITEM 1A. RISK FACTORS

Risks Relating to Our Business

We face numerous competitors, including both U.S.-based and non-U.S.-based competitors.

We face significant competition, and expect competition to continue to intensify for securities trading and listings. Our competitors and prospective competitors, both domestically and around the world, are numerous and include both traditional and non-traditional execution and listings venues.

We compete with U.S.-based and non-U.S.-based markets, ECNs and other alternative trading systems, market-makers and other execution venues. We also face competition from broker-dealers, some of which are the NYSE's largest customers, that internalize order flow. Internalization of order flow occurs when a broker-dealer trades against or matches its own customers' orders, extracting liquidity from the public market and decreasing trading volume in the public domain.

We compete with other market participants in a variety of ways, including the cost, quality and speed of trade execution, the functionality, ease of use and performance of trading systems, the range of products and services offered to trading participants and listed companies, technological innovation and reputation. Our competitors may:

respond more quickly to competitive pressures because they are not subject to the same degree of regulatory oversight as we are;

develop products that are preferred by our customers;

price their products and services more competitively;

develop and expand their network infrastructure and service offerings more efficiently;

utilize faster, more user-friendly technology;

consolidate and form alliances, which may create greater liquidity, lower costs and better pricing than we are able to offer;

market, promote and sell their products and services more effectively; and

better leverage existing relationships with customers and alliance partners or better exploit brand names to market and sell their services.

We may also face competition from new entrants into the markets in which we compete. The emergence of new competitors may increase price competition and reduce margins for all existing securities markets, including ours. New entrants may include new alternative trading systems and new initiatives by existing market participants, including established securities markets or exchanges, and current customers of the

NYSE and NYSE Arca that may internalize some of their order flow in the future.

As a result of this competition, the NYSE's share of trading in NYSE-listed securities has recently declined, although the NYSE's overall trading volume in these securities has increased during this time period. If the growth in the NYSE's overall trading volume does not adequately offset any decline in the NYSE's share of trading, or if the decline in the NYSE's share of trading makes the NYSE's market appear to be less liquid, then our financial condition and operating results will be adversely affected. For a discussion of the competitive environment in which we operate, see "Item 1. Business Industry Overview Competition."

Globalization, growth, consolidations and other strategic arrangements may impair our competitive position.

The liberalization and globalization of world markets have resulted in greater mobility of capital, greater international participation in local markets and more competition among markets in different geographical areas. As a result, the competition among U.S.-based and non-U.S.-based markets and other execution venues has become more intense.

In addition, in the last several years, the structure of the securities industry has changed significantly through demutualizations and consolidations. In response to growing competition, many marketplaces in both Europe and the United States have demutualized to provide greater flexibility for future growth. The securities industry is also experiencing consolidation, creating a more intense competitive environment. In particular, Nasdaq recently completed its acquisition of INET ECN ("INET"). Both the Philadelphia Stock Exchange, Inc. and Boston Stock Exchange, Inc. have also recently entered into investment agreements with other participants in the securities industry, with the objective of enabling them to better compete with other exchanges. In addition, there have been a number of recent attempts by more than one European exchange to acquire the London Stock Exchange. In addition, Nasdaq made a takeover bid for the London Stock Exchange on March 10, 2006 (although this bid was subsequently withdrawn). While we intend to pursue strategic acquisitions and alliances to enhance our global competitive position, the market for acquisition targets and strategic alliances is highly competitive, particularly in light of increasing consolidation in the securities industry, which may adversely affect our ability to find acquisition targets or strategic partners that fit our strategy objectives. In pursuing our strategy, we will need to respond to potential opportunities quickly and decisively. Strategic transactions may occur at any time and be significant in size relative to our assets and operations.

Because of these market trends, we face intense competition. If we are unable to compete successfully in this environment, our business, financial condition and operating results will be adversely affected.

The legal and regulatory environment in the United States may make it difficult for us to compete with non-U.S. securities exchanges for the secondary listings of non-U.S. companies.

We compete to obtain the listing of non-U.S. issuer securities (in addition to the listing of domestic issuer securities). However, the legal and regulatory environment in the United States, as well as the perception of this environment, has made it more difficult for us to compete with non-U.S. securities exchanges for these listings. For example, the Sarbanes-Oxley Act of 2002 imposes a stringent set of corporate governance, reporting and other requirements on both U.S. and non-U.S. publicly listed companies. Significant resources are necessary to come into and remain in compliance with the requirements of the Sarbanes-Oxley Act, which has had, and may continue to have, an impact on our ability to attract and retain listings. At the same time, international companies are increasingly seeking access to the U.S. markets through private transactions that do not require listing or trading in the U.S. public markets, such as through Rule 144A transactions. In the late 1990s, approximately 50% of the proceeds raised by international companies in the U.S. markets were raised privately, and the NYSE listed 60 foreign private issuers. In comparison, in 2005, approximately 80% of the proceeds raised by international companies in the U.S. markets were raised privately, and the NYSE averaged

approximately 20 new listings for international companies per year. Non-U.S. issuers may choose to list with non-U.S. securities exchanges exclusively without a secondary listing in the United States because they perceive the U.S. regulatory requirements and the U.S. litigation environment as too cumbersome and costly. If we are unable to successfully attract the listing business of non-U.S. issuers, our operating results could suffer.

Our business may be adversely affected by price competition.

The securities industry is characterized by intense price competition. The pricing model for trade execution for equity securities has changed in response to competitive market conditions. Some of our competitors have recently lowered their transaction costs and accordingly reduced the fees that they charge. In addition, we may face price competition in the fees that we charge to our customers to list securities on our securities exchanges. It is likely that we will continue to experience significant pricing pressures and that some of our competitors will seek to increase their share of trading or listings by further reducing their transaction fees or listing fees, by offering larger liquidity payments or by offering other forms of financial or other incentives. Our operating results and future profitability could be adversely affected as a result of these activities. For example, we could lose a substantial percentage of our share of trading or listings if we are unable to price our transactions in a competitive manner, or our profit margins could decline if we reduce our pricing in response. In addition, one or more competitors may engage in aggressive pricing strategies and significantly decrease or completely eliminate their profit margin for a period of time in order to capture a greater share of trading or listings. Some competitors, especially those outside of the United States, have high profit margins in business areas in which we do not engage, which may assist them in executing these strategies. This environment could lead to loss of order flow and decreased revenues, and consequently could adversely affect our operating results.

In addition, we are currently undertaking a fundamental review of our pricing structures for trading fees. There is risk inherent in the introduction of new pricing structures, and the implementation of a new price structure may have material adverse effects on our business, financial condition and operating results.

We may not be able to successfully integrate the businesses and operations of the NYSE and Archipelago in a timely fashion or at all.

Our management may face significant challenges in consolidating the functions of the NYSE and Archipelago, integrating their technologies, organizations, procedures, policies and operations, as well as addressing differences in the business cultures of the companies and retaining key personnel. The integration may also be complex and time consuming, and require substantial resources and effort. The integration process and other disruptions resulting from these transactions may disrupt our ongoing businesses or cause inconsistencies in standards, controls, procedures and policies that adversely affect our relationships with market participants, employees, regulators and others with whom we have business relationships or other dealings. If we fail to manage the integration of these businesses effectively, our growth strategy and future profitability could be negatively affected. In addition, difficulties in integrating the businesses of the NYSE and Archipelago could harm our reputation.

We may fail to realize the anticipated cost savings, growth opportunities and synergies and other benefits anticipated from the combination of the NYSE and Archipelago.

We are a holding company that was formed for the purpose of effecting the merger of the NYSE and Archipelago, which occurred on March 7, 2006. Prior to the merger, the NYSE and Archipelago operated as separate, independent companies. The success of the merger (and, in turn, our results of operations) will depend, in part, on our ability to realize the anticipated synergies and growth opportunities from combining these businesses, as well as on achieving the cost savings and revenue

growth trends that the NYSE and Archipelago had identified that they expected to achieve prior to the merger. We expect that the merger will enable us to benefit from operational synergies resulting from combining the two companies' capabilities and eliminating redundancies, as well as from greater efficiencies from increased scale, market integration and automation. We also intend to focus on revenue synergies that can be achieved by the combined entity. It is possible, however, that we may not be able to successfully integrate the businesses in a manner that achieves these cost savings and synergies. In addition, it is possible that the measures we take to achieve these costs savings and synergies could adversely affect current revenues and our investments in future growth.

We must keep up with emerging technological changes in order to compete effectively in a rapidly evolving and highly competitive industry.

We operate in a business environment that has undergone, and continues to experience, significant and rapid technological change. In recent years, electronic trading has grown significantly, and customer demand for increased choice of execution methods has increased. To remain competitive, we must continue to enhance and improve the responsiveness, functionality, accessibility and features of our trading platforms, software, systems and technologies. Our success will depend, in part, on our ability to:

develop and license leading technologies useful in our businesses;

enhance our existing trading platforms and services;

respond to customer demands, technological advances and emerging industry standards and practices on a cost-effective and timely basis; and

continue to attract and retain highly skilled technology staff to maintain and develop our existing technology and to adapt to and manage emerging technologies.

The development and expansion of electronic trading technology entails significant technological, financial and business risks. Any failure or delay in exploiting technology, or failure to exploit technology as effectively as our competitors, could have a material adverse effect on our business, financial condition and operating results. In addition, the increased use of electronic trading on the NYSE may make it more difficult for us to differentiate our products from those of our competitors, possibly reducing one of the competitive strengths of the NYSE. This may have an adverse impact on our business and, in particular, may reduce the incentive for companies to list on the NYSE. In addition, the commoditization of trade execution may result in a reduction in the number of people using the NYSE's trading floor. This may result in a decrease in the revenues raised through the use of our trading floor.

We use leading technologies and currently devote substantial resources to our services. The adoption of new technologies or market practices may require us to devote additional resources to modify and adapt our services. In such cases, we cannot assure you that we will succeed in making these improvements to our technology infrastructure in a timely manner or at all. If we are unable to anticipate and respond to the demand for new services, products and technologies on a timely and cost-effective basis and to adapt to technological advancements and changing standards, we may be unable to compete effectively, which would have a material adverse effect on our business, financial condition and results of operations. Moreover, we may incur substantial development, sales and marketing expenses and expend significant management effort to add new products or services to our trading platforms. Even after incurring these costs, we ultimately may not realize any, or may realize only small amounts of, revenues for these new products or services. Consequently, if revenue does not increase in a timely fashion as a result of these expansion initiatives, the up-front costs associated with expansion may exceed revenue and reduce our working capital and income.

Regulation NMS, and changes in Regulation NMS, may adversely affect our business.

On April 6, 2005, the SEC adopted Regulation NMS, which is a set of regulations that will govern certain aspects of trading on securities market centers. Its provisions are scheduled to become effective at various points throughout 2006. One of the principal features of Regulation NMS is the modernization of the "trade-through" or "order protection" rule. Among other things, this rule requires market centers to establish and maintain procedures to prevent "trade-throughs," which are the executions of orders at a price inferior to the best bid or offer displayed by another market center at the time of execution. This aspect of Regulation NMS will protect and apply only to quotes available for immediate execution. The "trade through" rule implemented by Regulation NMS could increase competition between markets.

Regulation NMS will also impose a cap of \$0.003 per share on the access fees charged by market centers to members (or customers) and non-members, based on executions against the best bid or best offer displayed through consolidated quote systems. As a result, the transaction fees that we may charge for executions against our best bid and offer will be capped, which could decrease the amount of transaction fees that we earn and prevent us from increasing our revenues by charging higher prices. The imposition of a cap on access fees could have an adverse effect on certain of our businesses.

We have begun to develop our business strategy and alter our business in consideration of the rules of Regulation NMS. There is no assurance, however, that Regulation NMS will be implemented in a timely manner or in its current form. Any delay or difficulties that arise in the implementation of Regulation NMS, as well as any amendment to Regulation NMS, could create uncertainty and adversely affect our financial condition and results of operations.

The successful implementation and operation of the NYSE Hybrid MarketSM faces a number of significant challenges and depends on a number of factors that will be outside our control.

We are currently working on implementing the NYSE Hybrid MarketSM, which was approved by the SEC on March 22, 2006. NYSE Hybrid MarketSM is intended to integrate into one platform aspects of both the physically-convened auction market and automated electronic execution. This effort is our response to the request from both market professionals and individual investors for greater choice and flexibility in buying and selling stocks on the NYSE. The NYSE Hybrid MarketSM is also our strategy for adapting to the revised "trade through" rule adopted by the SEC on April 6, 2005 as a part of Regulation NMS, which prohibits trading-through quotations that are displayed by another market and immediately accessible through automatic execution. If successfully implemented, we expect that the NYSE Hybrid MarketSM will change the way that securities are traded on the NYSE and will differentiate the NYSE from electronic trading venues. This initiative is scheduled to launch in phases during 2006.

In December 2005, the NYSE initiated the first phase of a pilot to test selected features and functionality of the NYSE Hybrid MarketSM among a limited number of securities approved by the SEC. As of March 3, 2006, 147 securities listed on the NYSE have been activated for inclusion in this phase of the pilot. To date, NYSE Hybrid MarketSM software is functioning as expected, and all implemented features are being actively exercised by trading floor professionals. However, technological, functional, or other issues with respect to NYSE Hybrid MarketSM may not emerge as additional features and functionality are introduced through subsequent pilot phases over the next several months. Additionally, the need to make changes to the plans for the NYSE Hybrid MarketSM may delay the implementation or operation of the NYSE Hybrid MarketSM.

The successful implementation of the NYSE Hybrid MarketSM faces a number of significant challenges, including the difficulties of developing and implementing novel technology and the ability and willingness of specialists to build new technology platforms.

In addition, as a novel technology and method of trading, there is no assurance that the NYSE Hybrid MarketSM will function as it is currently anticipated to function, or that customers will accept and use the services that it offers. The operation of the NYSE Hybrid MarketSM also places greater demands on NYSE Regulation, and specifically market surveillance.

Any delay or difficulties in implementing or operating the NYSE Hybrid MarketSM may have a material adverse effect on our ability to compete and our operating results, particularly if the NYSE Hybrid MarketSM is not implemented by the time that first phase of Regulation NMS goes into effect. Currently, the first phase of Regulation NMS is scheduled to go in effect on June 29, 2006. Although the NYSE expects that it will be able to be in compliance with Regulation NMS by June 29, 2006, it expects that it will not be able to implement all of the planned features and functionalities of the NYSE Hybrid MarketSM on the effective date of this first phase unless the SEC postpones this date. In addition, any unwillingness by our customers to accept or use the NYSE Hybrid MarketSM services may also have an adverse impact on our ability to compete and on our operating results. For a discussion of the NYSE Hybrid MarketSM, see "Item 1. Business Business Information About the NYSE The NYSE Hybrid Market Initiative."

We intend to enter or increase our presence in established trading markets, such as the U.S. options or futures markets or non-U.S. securities markets. Demand and market acceptance for our products and services within these markets will be subject to a high degree of uncertainty and risks and may affect our growth potential.

We intend to enter or increase our presence in certain trading markets, such as the U.S. options and futures markets or non-U.S. securities markets, which already possess established competitors. As a result, demand and market acceptance for our products and services within these markets will be subject to a high degree of uncertainty and risk. If we are unable to enter or increase our presence in these markets and compete successfully, we may not generate sufficient revenues from these products and services.

Our future growth and success may depend in part on our ability to compete with and penetrate the non-U.S. securities markets. However, we may not be successful in competing with or penetrating these markets. Attracting customers in certain countries may be subject to a number of risks, including currency exchange rate risk, difficulties in enforcing agreements or collecting receivables, longer payment cycles, compliance with the laws or regulations of foreign countries, and political and regulatory uncertainties.

Increased investor interest in other investment products could have a material adverse effect on our businesses.

Trading fees account for a significant proportion of our revenues. Increased investor interest in investment products that we do not trade may result in a reduction in order flow, and may therefore have a material adverse effect on our business, financial condition and operating results.

The loss of key personnel may adversely affect our business.

We are dependent upon the contributions of our senior management team and other key employees, as well as key staff of NYSE Regulation, for our success. With the exception of John A. Thain, our chief executive officer, who entered into a letter agreement with the NYSE, these individuals do not have agreements relating to their employment with us. If one or more of these executives, or other key employees, were to cease to be employed by us, we could be adversely affected. In particular, we may have to incur costs to replace senior executive officers or other key employees who leave, and our ability to execute our business strategy could be impaired if we are unable to replace such persons in a timely manner.

We may be at greater risk from terrorism than other companies.

Given the NYSE's position as the world's largest cash equities market, its prominence in the U.S. and global securities industry, and the concentration of many of its properties and personnel in lower Manhattan, we may be more likely than other companies to be a direct target of, or an indirect casualty of, attacks by terrorists or terrorist organizations.

It is impossible to predict the likelihood or impact of any terrorist attack on the securities industry generally or on our business. In the event of an attack or a threat of an attack, our security measures and contingency plans may be inadequate to prevent significant disruptions in our business, technology or access to the infrastructure necessary to maintain our business. For a discussion of some of our security measures and contingency plans, see "Item 1. Business Business Security Measures and Contingency Plans." Damage to our facilities due to terrorist attacks may be significantly in excess of any amount of insurance received, or we may not be able to insure against such damage at a reasonable price or at all. The threat of terrorist attacks may also negatively affect our ability to attract and retain employees. In addition, terrorist attacks may cause instability or decreased trading in the securities markets, including trading on exchanges. Any of these events could have a material adverse effect on our business, financial condition and operating results.

We operate in a highly regulated industry, and may be subject to censures, fines and other legal proceedings if we fail to comply with our legal and regulatory obligations.

We operate in a highly regulated industry and are subject to extensive regulation. The securities industry is subject to extensive governmental regulation and could be subject to increased regulatory scrutiny. As a matter of public policy, these regulations are designed to safeguard the integrity of the securities and other financial markets and to protect the interests of investors in those markets. The SEC regulates the U.S. securities exchanges and has broad powers to audit, investigate and enforce compliance with its rules and regulations and impose sanctions for non-compliance. Our ability to comply with applicable laws and rules is largely dependent on our establishment and maintenance of appropriate systems and procedures, as well as our ability to attract and retain qualified personnel.

The SEC is vested with broad enforcement powers to censure, fine, issue cease-and-desist orders, prohibit us from engaging in some of our businesses or suspend or revoke the registration of our subsidiaries as national securities exchanges. In the case of actual or alleged noncompliance with regulatory requirements, NYSE Group could be subject to investigations and administrative or judicial proceedings that may result in substantial penalties, including revocation of a subsidiary's registration as a national securities exchange. Any such investigation or proceeding, whether successful or unsuccessful, would result in substantial costs and diversions of resources and might also harm our business reputation, any of which may have a material adverse effect on our business, financial condition and operating results.

In addition, there may be a conflict between the self-regulatory responsibilities of certain of our businesses and some of the market participants or customers of our subsidiaries. Any failure by us to diligently and fairly regulate our member organizations or to otherwise fulfill our regulatory obligations could significantly harm our reputation, prompt SEC scrutiny and adversely affect our business.

Damage to our reputation could have a material adverse effect on our businesses.

One of our competitive strengths is our strong reputation and brand name. Our reputation could be harmed in many different ways, including by our regulatory governance or technology failures. Damage to our reputation could cause some issuers not to list their securities on our exchanges, as well as reduce the trading volume on our exchanges. This, in turn, may have a material adverse effect on our business, financial condition and operating results.

We will face restrictions with respect to the way in which we conduct certain of our operations, and may experience certain competitive disadvantages if we do not receive SEC approval for new business initiatives or receive them in an untimely manner.

We operate two registered national securities exchanges the NYSE and NYSE Arca. Pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"), we are responsible for regulating our member organizations through the adoption and enforcement of rules governing the trading activities, business conduct and financial responsibility of our member organizations and individuals associated with them. Changes to our rules are generally subject to the approval of the SEC, which publishes proposed rule changes for public comment. Changes to our certificate of incorporation or bylaws and changes to the certificate of incorporation, bylaws or operating agreement, or rules of certain of our subsidiaries, to the extent that these changes could affect the activities of our exchanges, must also be approved. We may from time to time seek to engage in new business activities, some of which may require changes to our governing rules.

Any delay or denial of a requested approval could cause us to lose business opportunities. Our competitive position could be significantly weakened if our competitors are able to obtain SEC approval for new functionalities faster and with less difficulty than we are, or if approval is not required for our competitors. Competitors that are not registered exchanges are subject to less stringent regulation. In addition, as we seek to expand our product base, we could become subject to the oversight of additional regulatory bodies.

NYSE Arca has had discussions with SEC staff regarding a potential pilot program to trade and quote options on certain ETFs in penny increments, but any proposal that NYSE Arca may make on this issue may be denied by the SEC.

NYSE Arca has had discussions with SEC staff regarding a potential pilot program to display, rank, quote and execute option orders on certain ETFs in penny increments. Currently, options are displayed, ranked, quoted and executed in nickel and dime increments, although the underlying equity security may be displayed, ranked, quoted and executed in penny increments (or, after the implementation of Regulation NMS, sub-penny increments if the quote, order or indication of interest for the security is less than \$1.00). Any proposal that NYSE Arca may make on this issue will require approval from the SEC.

Currently, only certain option market participants have the capability to execute orders for options in penny increments; however, these orders are not executed in a manner that is transparent to all option market participants. Although these market participants are able to execute orders in penny increments, they still must quote and display their orders in nickel or dime increments. NYSE Arca's potential pilot program would provide transparent option order display and execution to all market participants. It would also seek to provide improved and enhanced pricing opportunities for all market participants, as the fair value of options are often in part dependent upon the fair price of the underlying equity security. Some industry participants oppose such a program under the belief that it would overwhelm the capacity limits of existing option quote processing systems.

In the event that the SEC approves displaying, quoting and executing options in any increments under a nickel, we believe that we will be well positioned to adequately handle the process. Failure of the SEC to approve the ability to display, rank, quote and execute orders for options in increments under a nickel could limit to a material extent our ability to gain options trading share or realize the growth opportunities and other benefits that we anticipate.

Regulatory developments could have a negative impact on our businesses.

Securities exchanges have been the subject of increasing political and public scrutiny in recent years in response to a number of developments and inquiries. In November 2004, the SEC proposed corporate governance, transparency, oversight and ownership rules for registered national securities exchanges and other self-regulatory organizations ("SROs") and issued a concept release examining the efficacy of self-regulation. The concept release also solicited public comment concerning the level of market data fees, following several years of claims from some competitors and data intermediaries that market data fees and revenues are excessive.

We cannot predict whether, or in what form, any regulatory changes will take place, or their impact on our business. Changes in the rules and regulations affecting SROs could require us to change the manner in which we conduct our business or govern ourselves. They could also make it more difficult or more costly for us to conduct our existing businesses or to enter into new businesses. A determination by the SEC, for example, to link market data fees to marginal costs, to become even more involved in the market data rate-setting process, or to reduce the current levels of market data fees could have a material adverse effect on our market data revenues. Moreover, given the importance of regulation in the securities industry, it is possible that any regulatory developments could have a material adverse effect on our business, as well as the business of other participants in the securities industry. For a discussion of recent regulatory developments, see "Item 1. Business Regulation Recent Regulatory Developments."

We are required to allocate funds and resources to NYSE Regulation.

We are required to allocate significant resources to NYSE Regulation. This dedication of resources may limit our ability to reduce our expense structure and to dedicate funds and human resources in other areas. Both NYSE Market and NYSE Arca have entered into services agreements with NYSE Regulation pursuant to which they are obligated to provide funding to NYSE Regulation in exchange for regulatory services that NYSE Regulation provides to them. The obligations to fund NYSE Regulation under the agreements covering those services could negatively affect the cash available to us and our ability to invest in or pursue other opportunities that may also be beneficial to our stockholders. For a discussion of our regulatory structure and responsibilities, see "Item 1. Business Regulation NYSE Regulation."

Any conflicts of interest between us and NYSE Regulation may have a material adverse effect on our business.

NYSE Regulation will regulate and monitor the activities on our securities exchanges and enforce issuer and member organization compliance with applicable law and the rules of the exchanges. In a recent rule proposal, the SEC noted that there is an inherent conflict that exists within every SRO between its regulatory functions, on the one hand, and its member organizations, market operations, listed issuers, and stockholders, on the other hand. The SEC has also expressed concern about the conflicts of interest that may exist when a for-profit entity owns an SRO. The for-profit entity's goal of maximizing stockholder value might conflict with the SRO's self-regulatory responsibilities imposed by the securities laws. For example, the for-profit entity might have an incentive to commit insufficient funds to the regulatory operations of the SRO, or use the disciplinary powers of the SRO to generate revenue for the for-profit entity by disciplining member organizations that operate or participate in competing trading systems. In addition, the regulatory responsibilities imposed by the U.S. securities laws (such as encouraging low-cost trading and competitive markets) may conflict with our profit-oriented goals as a public company. There may be more opportunities for conflicts of interest to arise when SROs regulate listed companies. Additional conflicts of interest arise where a company (such as NYSE Group) lists its securities on the national securities exchange that it owns. The listing of our common stock on the NYSE could potentially create a conflict of interest between the NYSE's regulatory responsibility to vigorously oversee the listing and trading of securities on the NYSE, on the

one hand, and our commercial and economic interest, on the other hand. The SRO's disciplinary power over NYSE Group's competitors may also raise questions.

We have implemented structural protections to minimize these potential conflicts of interest. For a discussion of some of these structural protections, see "Item 1. Business Regulation NYSE Regulation Structure, Organization and Governance of NYSE Regulation." These structural protections, however, may not be adequate to manage (and, in any event, will not eliminate) these potential conflicts of interest. For example, certain of the independent directors of our board of directors will serve as directors on the NYSE Regulation board of directors. In the event that we fail to manage these potential conflicts of interest adequately, we could impair the effectiveness of NYSE Regulation or otherwise incur reputational damage, which could have a material adverse effect on our business, financial condition and operating results.

Certain of our businesses rely on specialists for effecting some transactions. Any failure by specialists to perform their function effectively or to comply with their regulatory obligations may have a material adverse effect on our business.

Specialists are an important component of the market structure within the NYSE. For example, specialists assist in providing liquidity and minimizing volatility. A deterioration in the performance of specialists, or misconduct by specialists, could damage our reputation and reduce our ability to compete with other securities exchanges for listings and order flow. The profitability of the seven specialist units currently active on the NYSE has fluctuated significantly since 2002.

The increased use of technology (and, in particular, computers) in securities executions also is changing the business models of specialists. Their failure to adapt their business models to this changing environment in general, and to the NYSE Hybrid MarketSM in particular, would further undermine the differentiation, and therefore the competitive position, of NYSE Market. For a discussion of certain litigation and SEC action relating to specialists, see "Item 3. Legal Proceedings In re NYSE Specialists Securities Litigation."

We derive significant revenues from activities related to our trading floor, including trading fees, facility and equipment fees and trading license fees. The migration of trading volume away from the trading floor and into our or others' electronic trading platforms could adversely affect these revenues.

Market fluctuations and other risks beyond our control could significantly reduce demand for our services and harm our business.

The volume of securities transactions and the demand for listings and our other products and services are directly affected by economic, political and market conditions in the United States and elsewhere in the world that are beyond our control, including:

broad trends in business and finance;

terrorism and war;

concerns over inflation and the level of institutional or retail confidence;

changes in government monetary policy and foreign currency exchange rates;

the availability of short-term and long-term funding and capital;

the availability of alternative investment opportunities;

changes in the level of trading activity;

changes and volatility in the prices of securities;

changes in tax policy;

the level and volatility of interest rates;