

NYSE's Purpose

An Interview with
Thomas W. Farley, President, New York Stock Exchange

EDITORS' NOTE *Thomas Farley serves as the president of the NYSE Group, including the New York Stock Exchange. He graduated from Georgetown University, where he received a bachelor of arts degree in political science. He also received a Chartered Financial Analyst certification from the CFA Institute. Farley worked for Montgomery Securities, an investment bank, and Gryphon Investors. He served as the Chief Financial Officer, Chief Operating Officer, and later President of SunGard Kiodex. Farley became the President of the Intercontinental Exchange (ICE) and Chief Operating Officer of the ICE Futures U.S. in 2007. He later served as Senior Vice President of financial markets at the ICE. Farley served as the Chief Operating Officer of the NYSE Group from November 2013 to May 2014, when he took on his current post.*



Thomas W. Farley

COMPANY BRIEF *The New York Stock Exchange (nyse.com) is the world's largest stock exchange by market capitalization of its listed companies. The NYSE trading floor is located at 11 Wall Street. The building was designated a National Historic Landmark in 1978. The NYSE is owned by Intercontinental Exchange, a global operator of exchanges and market data provider (NYSE: ICE).*

How has the NYSE adapted and evolved to where it is today?

You can see the same consistency in the NYSE throughout its history – a company doesn't survive for 224 years without innovating, reinventing itself, and staying up with the latest and greatest technologies.

The longest continually listed company we have is Con Edison, which has been listed for 195 years. The oldest company is Sotheby's, which has existed since 1744, but they've only been listed for 25 years.

In order for us to be relevant through all this time, we have to have a culture of servicing our customers first and foremost, but doing it in a way that is innovative, and that's what my predecessors have been able to do. For a successor to be able to sit down 224 years from now and direct the NYSE, the

management of the exchange will need to continue to have that same sort of DNA.

How do you define the innovation currently happening at the exchange?

The core mission of our business is simple and that has never changed. We help great entrepreneurs raise capital to make their dreams a reality and ultimately make the world a better place by improving quality of life.

A necessary byproduct of that is that we also offer secondary trad-

ing of those companies so that the investors who provided the capital know that, if they choose to sell their shares in the future, they will have a place to sell them. Those are our twin goals.

When I talk about innovation, I'm not talking about inventing out of thin air; I'm talking about being innovative in the way we service customers to fulfill our twin goals.

The history of the exchange has always been at the forefront of innovation. There is a letter to the exchange on the NYSE's sixth floor from Thomas Edison in 1883 saying he has improved upon Edward A. Calahan's 1867 invention of the Stock Ticker. Then it was the telegraph, and then the telephone, and then the television, and then the Internet, and then Internet services that allows for dissemination of news and data.

When I talk about innovation today, I'm referring to it principally as the bringing together buyers and sellers in a more efficient way. This further narrows the spread between bids and offers, and ultimately reduces investors' costs and companies' costs. It could also refer to the dissemination of data about the marketplace itself.

Is that twin mission well understood?

I don't think it has been well understood, particularly over the past decade in this country. To some extent, exchanges lost their way and the efforts were focused disproportionately on that necessary byproduct, which is the secondary trading of shares.

There was a real emphasis on technological wizardry even if it meant sacrificing approachability by raising the complexity of the exchanges. As the head of the exchange, I have returned the focus first to that goal of raising capital for entrepreneurs. This meant

simplifying everything we do; going out and finding the best companies and making sure all of the best companies listed here. It also involved listening carefully to the listed company in a way that exchanges had drifted away from.

What investments are you making in technology to keep you competitive with all the exchanges out there today?

Throughout history, we have been a technological innovator. However, throughout history, we have also always had a real human element and we continue to have that balance today.

We have spent close to \$100 million building out a new trading platform that will roll out across our equities markets and options markets. This will make our approach to technology more uniform and simplify the markets.

However, we also couple that with a human element. Every company that lists on the New York Stock Exchange has an individual who is obligated by contract, but also by regulatory rule, to monitor the opening and closing of that particular stock every single day. They also have to monitor the bid and offer, in other words, be willing to buy and sell at all times, no matter what occurs. There is no other exchange that blends that combination of technology and human oversight.

Where do you see the IPO market today?

The IPO market is very slow right now for two reasons: one is structural and long-term; the other is cyclical and shorter term.

The number of public companies is down from about 8,000 to around 4,000 over the past 20 years. There is a variety of reasons for that, which include the additional cost and complexity of being a public company with greater regulation. It also includes the additional scrutiny that comes from activist shareholders and a myriad of other reasons, such as the increasing sophistication of the private market financing.

The second reason is the extreme volatility we've had over the past 12 months, starting last August 24th with the volatility out of Asia, which recurred in January and February. We're now out of that period unless something unforeseen happens. It's an ideal time for IPOs at this exact moment:

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interest rates are low and stable, volatility is at long-run lows, and asset prices are at long-run highs. I'm more optimistic now than at any other point over the past year and a half that we will see a healthy IPO market in the latter half of the year.

Even with the long-term structural issues?

As my second point recovers, we will have a good year relative to 2015 or 2014, but not as compared to 1990 and 1991. We, as an industry along with American policy-makers, haven't tackled that problem.

I do believe a healthy public company market is, in and of itself, an intrinsically good social and public stance. If we look at the really great tech companies of 20 years ago, they went public early in their life cycle and created tremendous wealth for the mom-and-pop investor. The incredible technology companies today have created tremendous wealth largely for sophisticated, very wealthy investors and I do not think that is a long-term social good.

Are China and Brazil as much of a focus as they once were or are you looking to the U.S. for stability?

Our focus has always been disproportionately on the U.S. Our view is that if we do a great job running our business and appealing to U.S. companies, we will inevitably be an attractive spot for great global companies.

It's not just China and Brazil, but really everywhere in the world barring a few spots. Ireland is doing well, for example. The United States looks really strong and attractive, and it looks like a safe haven, as does the New York Stock Exchange. We have a number of companies from China and Brazil who are actively talking to us about upping IPO efforts. We had China Online Education go public earlier this year; we have a large confidential Chinese IPO we're working with right now; and we have a large confidential Brazilian IPO we're working with right now. In a perverse way, when the rest of the world doesn't do as well, we do better with respect to global listings because companies will look to IPO outside of their home market, which is in turmoil.

How concerned are you that over-regulation is going to stymie growth for the next generation of companies?

Regulation has stymied the IPO market. The good news is the pendulum is swinging back.

Looking at the Jobs Act, which we lobbied heavily for, it included a number of provisions that have boosted IPOs that otherwise would not have occurred. For example, the ability to file confidentially. Many companies don't want to file publicly if they aren't absolutely certain that their IPO is going to be successful. They would then be telling their competition what their margins are, what their trade secrets are, what they believe their intellectual property portfolio looks like, etc.

The pendulum is swinging back and, for the first time, it feels like there is an increasing understanding, even in Washington, that it's difficult to be a public company with today's regulation.

I'm not sure the pendulum will continue swinging based on the rhetoric we're hearing in this Presidential race but, at least leading up to now, there has been some encouraging improvements to our regulatory infrastructure.

Are you still getting the talent you need and do people understand the type of career the NYSE can offer?

We are getting great people. The people are coming here because it's an exceptionally interesting place to work. They can work with the greatest companies and CEOs on earth. We also have a high-performing culture where high performers are rewarded with more accountability and encouraged to take more risks. They have a lot of fun because, more often than not, we are adding value to our customers so we are winning in the marketplace.

However, our culture is not for everyone. I joined the NYSE in November of 2013 and it was a different culture. We had nearly complete turnover in the senior management ranks. However, it is a very fun culture, and when we go out to hire the talent pool, what we're getting is quite good.

How important is it to build a culture of corporate responsibility within the exchange?

It's refreshing for me that I don't have to spend a lot of time wondering if we should or should not take corporate responsibility seriously – we have no choice. One of the

first charities that the NYSE supported was the Orphan Asylum started by Eliza Hamilton in 1801 her first benefactor was the New York Stock Exchange. For centuries, we have been a bedrock with respect to corporate responsibility and philanthropic activities, and it's one of the things I most enjoy in this role.

For example, every year we host a medal of honor recipient dinner. We invite the living medal of honor recipients, and about half of them come to the exchange. We recently hosted the Catholic Charities Annual Breakfast to raise money for that organization, which has 400 shelters in the New York City area.

For us, it's not only important; it's required as an institution in New York.

Did you know early on that this was the right fit for you when you?

I wanted to do this because I have so much respect for the New York Stock Exchange. I was very nervous because it's a big job and one is expected to know a lot about many areas. We agreed to acquire the New York Stock Exchange on Thanksgiving of 2012 and, very shortly thereafter, my chairman tapped me on the shoulder and said I should go in and get ready because it would be a very senior role. The good news for me was that I had a runway of about a year to really learn the business and about the NYSE listed companies. I also had to learn more about the SEC regulation of equities markets, so I got off to a running start.

I quickly learned that I needed to build a great management team that bought into the type of culture I was looking to build. That first year was somewhat difficult because that team was not in place. Now, I have an incredibly productive and diverse team. My objective, first and foremost, was to collect a management team that is filled with high performers with a diverse set of viewpoints. More often than not, one will end up with a team that looks different as well, and we have that. But that is secondary – the first goal is to have a team with diverse viewpoints. If one sat in on our management meetings, it would seem like a dysfunctional family get-together, but all of that chaos results in a sharper focus on the customers and fulfilling those twin goals of helping entrepreneurs raise capital to make their dreams a reality and having the secondary trading of those shares. ●