

Trust and Confidence

An Interview with Catherine R. Kinney,
President and Co-Chief Operating Officer, NYSE Group, Inc., New York



Catherine R. Kinney

EDITORS' NOTE Catherine Kinney joined the New York Stock Exchange (NYSE) in 1974 and proceeded to hold management positions in several divisions, including Technology Planning, Sales and Marketing, and Regulation, serving most recently as President and Co-Chief Operating Officer. She is a member of the NYSE Management Committee and, following completion of the NYSE-Euronext merger, will serve on the newly combined company's management committee. A graduate of Iona College and the Advanced Management Program at Harvard Business School, and the recipient of honorary degrees from Georgetown University and Rosemont College, Kinney is a member of the boards of the NYSE Foundation, the Depository Trust & Clearing Corporation, Georgetown University, the United States-India Business Council, and Catholic Charities.

COMPANY BRIEF NYSE Group, Inc. is the world's largest stock market group and is in the process of completing its merger with Euronext N.V. The NYSE lists nearly 2,700 companies, including most of the largest U.S. corporations and international companies seeking liquidity in the U.S. market, with a total global market capitalization of approximately \$21 trillion. Currently a for-profit corporation, NYSE Group reported revenues of \$1.1 billion and net income of \$40.7 million for 2005.

The NYSE has achieved strong growth over the past year. Are you optimistic for continued growth, and if so, where do you see that growth coming from?

Yes, we're very optimistic about the future, and we see a number of drivers for growth, both in the U.S. and abroad. The first is the current businesses that we're in; equities and options. We expect volume growth in equities trading with the completion of our hybrid trading model, and NYSE Arca is a leading player in the trading of both NYSE and Nasdaq listed stocks. We now have 15 percent of the options market, while having effectively been in it for less than six months. The derivative markets are growing much faster than equities or stocks. In fact, some have shown 30 percent compound growth over the last three years. Our listings business is very healthy and growing, and NYSE Arca has become the leader in the trading of ETFs. Of course, the combined NYSE and Euronext holds great promise. There's a lot of excitement about the business at the moment.

You mentioned the new hybrid model. Why did you move in that direction, and how do you envisage that affecting the business?

When John [NYSE Group CEO John A. Thain] arrived at the exchange in 2004, our customers were talking about the need for the NYSE to become a faster market. We had very good market quality, our costs were very low, but our customers wanted faster order executions. The hybrid model has enabled us to reduce our turnaround time for customers from about nine seconds to about 300 milliseconds. Well before the end of the year, we'll be somewhere in the range of 10 to 20 milliseconds. That is a pretty stunning improvement in our performance.

Another reason for moving to a hybrid model was sheer productivity. Before we adopted this model, specialist clerks were maxed out in their ability to type their responses to the customers. Specialists and floor brokers both benefit from new automation tools, enabling them to better serve investors. The automatic execution capability that is built into the hybrid model facilitates very quick reporting back to customers. Our customers benefit from the choice of auction and automation, and market quality has been excellent.

The hybrid model, too, positions us very well competitively, especially in the new Reg. NMS environment.

How do you go about building relationships with your various stakeholders?

We're very focused on the customers and, now as a public company, our shareholders. NYSE Group relies on broker-dealers for distribution, so we really have to work to build those relationships. We listen to our customers and respond to their needs. The hybrid model is one example of this. We're constantly out with our customers building these relationships, and there's no question that relationship building has become more complex. One reason is that there are so many touch points within organizations today: people who are handling customer accounts, people who are handling proprietary trading for the firm's own account, and other people who are handling retail accounts. Our relationships have broadened and deepened as a result, and our focus on customer service and market quality further differentiates our market.

Another measure of our success is the retention rate we have with our issuers. Those are pretty much lifetime relationships. Occasionally, we lose a company, but you could count on one hand the companies that have left voluntarily over the last 20 years. That's a great strength and a statement on our business and brand. People associate our name with quality.

Lots of talented young people are keen to go into hedge funds and private equity firms. How do you attract and retain the talent you need?

We're very focused on this, and particularly as it pertains to a diverse workplace. I am very excited about what we're doing. I've always thought that we offer the best combination for anybody interested in a career in the financial-services business, because we get to work with the greatest companies in the world; we have a very dynamic market, which is the largest in the world; and we've always served as a public policy forum on issues of importance. For example, John Thain has been very involved in working with the Securities and Exchange Commission and the Public Company Accounting Oversight Board on issues like Sarbanes-Oxley. Because of this, the NYSE has always attracted truly excellent talent. So, the work is very interesting, the people you work with are wonderful, and you get a broad exposure to the industry and its issues. All those things make it a very attractive place to work. ●