The Securities Industry in New York City

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Highlights

- **The securities industry grew by 9,500 jobs between 2003 and 2005—three times faster than job growth in the City overall. This represents a recovery of one third of the jobs lost in the industry between 2000 and 2003.**
- **Recent job growth in the City's security industry has outpaced the rest of the nation, increasing the City's share of U.S. securities employment.**
- **Each new Wall Street job leads to the creation of an average of two additional jobs in the City and one in the suburbs.**
- **Securities industry wages grew by 36 percent between 2003 and 2005—three times faster than wages in the rest of the City's economy.**
- **The average Wall Street salary, which was a record $289,664 in 2005, is now 5.1 times the average salary in other industries—up from 2.5 times in 1990 and 4.3 times in 2003.**
- **In 2005, wages in the City's securities industry accounted for almost 95 percent of the securities industry wages paid in New York State and 37 percent of the amount paid in the nation.**
- **Wall Street bonuses totaled a record $21.5 billion in 2005, growing to an average of $125,500 per employee.**
- **The Securities Industry Association projects that the pre-tax profits of the broker/dealer operations of New York Stock Exchange member firms will rise by 58.5 percent in 2006 to reach $14.9 billion.**
- **The New York Stock Exchange developed the Hybrid Market—a combination of floor traders and electronic trading—to remain competitive with automated exchanges and new regulations.**
- **The City recently engaged a consultant to help formulate a strategy to improve New York's competitive position relative to London, which has grown rapidly as an international financial center in recent years.**

Wall Street has experienced tremendous growth in recent years and is vitally important to New York City. In 2005, the securities industry employed an average of 171,000 people and directly or indirectly accounted for one out of every seven jobs in the City. That year, the industry paid $49 billion in wages and contributed $2.1 billion to the City's coffers, a significant factor behind recent record budget surpluses in the City.

The securities industry grew by 9,500 jobs in the City between 2003 and 2005—three times faster than job growth in the City overall. While only 4.7 percent of the City's jobs are in the securities industry, Wall Street paid over 20.7 percent of the City's wages in 2005.

The Securities Industry Association forecasts that after declining by 31.1 percent in 2005, profits of broker/dealer operations of New York Stock Exchange member firms will rise by 58.5 percent in 2006—resulting in the fourth-highest level of profitability.

Profits at the seven largest financial firms headquartered in New York City, which are highly diversified, increased by 42.5 percent in 2005—to reach a record $45 billion—and grew by another 34.6 percent during the first half of 2006. While smaller, less diversified firms may not fare as well, the large firms, and perhaps the industry, are on track to set new records for revenues and profits.

Despite recent gains, Wall Street faces some significant challenges and must adapt to an evolving business environment, including the move to electronic trading, new regulations, and an increasingly global economy. The City must also find ways to better diversify its economy and become less reliant on Wall Street profits for tax revenues. The human and financial capital available in the City, however, as well as the ability of Wall Street firms to perform high value–added financial operations, will help the City maintain its prominent position in world finance.

Global Financial Trends

With the global economy expanding and generating strong demand for capital, the financial markets have become increasingly international and interdependent. Technology is playing a major role in shaping capital flows through improved access to capital and financial products.

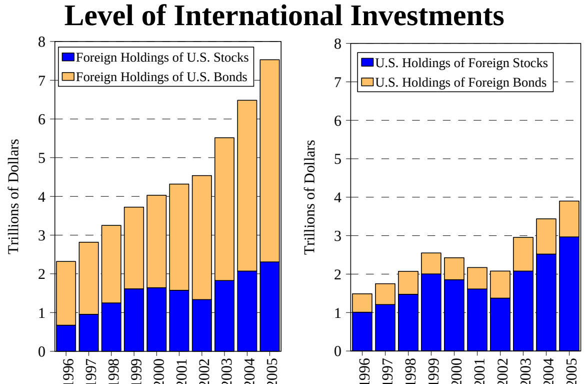
Raising Capital

In recent years, securities and debt have replaced bank lending as the primary means to raise capital, and Wall Street has played a leading role in matching domestic and international capital needs with investors worldwide. International markets have also absorbed significant amounts of U.S. corporate and government debt.

From 1996 through 2005, the value of U.S. stocks and bonds held by international investors increased threefold, to $7.5 trillion, while the value of U.S. holdings of international investments more than doubled, to $3.9 trillion (see Figure 1). International holdings of U.S. bonds have risen sharply—during the last decade the value of U.S. Treasury debt held by foreigners more than doubled, reaching $2.2 trillion in 2005. This is 47 percent of all such outstanding debt.

Figure 1

Level of International Investments



Source: Federal Reserve Bank, Flow of Funds

Equity Market Trading Volume

During the period covering January 2004 through September 2006, the average daily volume of trading on the NASDAQ increased by 12.7 percent, while on the New York Stock Exchange (NYSE) it surged by 93.6 percent. Over the same period, the growth in average daily volume on the London and Paris stock exchanges was comparable to the NASDAQ, while volume on the Tokyo exchange increased by 70 percent.

Investment Banking Activity

According to Thomson Financial, the value of completed mergers and acquisitions worldwide increased by more than 25 percent in 2004 and by another 34.1 percent in 2005, rising to $2.2 trillion. The value of completed mergers and acquisitions in the U.S. also increased sharply, rising by 61 percent in 2004 and by another 13.9 percent in 2005, to $885 billion. Mergers and acquisitions activity has continued to be strong during the first three quarters of 2006, increasing by 16.1 percent worldwide compared to the same period in 2005, while completed deals in the U.S. grew by 30 percent. Although the rate of growth slowed in the third quarter, 2006 is on track to reach a new record high.

In addition, Thomson Financial estimates that debt and equity underwriting climbed to a record $6.5 trillion in 2005 from $5.7 trillion in 2004, a 14 percent increase. Foreign underwriting activity experienced especially strong growth in 2005—European issuance climbed almost 13 percent to $2.5 trillion, and Japanese underwriting volume rose by over 10 percent to $276 billion.

Within underwriting, total global initial public offerings (IPOs) rose 19 percent in 2005, to more than $163 billion. In contrast, the volume of U.S. IPOs actually declined by 17.3 percent in 2005, to $36 billion. In the first three quarters of 2006, worldwide IPO activity rose another 51.8 percent when compared to the same period of 2005, while U.S. IPOs increased by only 6.2 percent compared to the same period in 2005.

Wall Street Profits

The Securities Industry Association (SIA) projects that the NYSE member firms will earn pre-tax profits of $14.9 billion in 2006 from broker/dealer operations, which is an increase of 58.5 percent and would result in the fourth-highest profit on record. Although profits increased by 113 percent during the first half of 2006, the SIA assumes no growth during the second half of the year.

Traditionally, broker/dealer profits for member firms of the NYSE have been used to measure the health of Wall Street. In recent years, however, large financial firms have diversified their operations into activities and markets that are not fully captured by this data.

For example, the seven largest financial firms headquartered in New York City, which are highly diversified, had record revenues and pre-tax profits in 2005, and the industry paid out record bonuses. Profits from broker/dealer operations, however, declined by 31.1 percent and were only the ninth-best ever.

The seven firms are Bear Stearns, Citigroup Corporate and Investment Bank, Goldman Sachs, JPMorgan Chase Investment Bank, Lehman Brothers, Merrill Lynch, and Morgan Stanley. According to the SIA, these firms are among the largest 15 member firms of the NYSE. Five of the seven firms also ranked as the top five largest domestic firms by revenue; five ranked as the top five for mergers and acquisitions activity; and six ranked among the ten largest firms for underwriting.

In 2005, the seven firms had combined pre-tax profits of $45 billion, which is a 42.5 percent increase from their 2004 combined total of $31.6 billion. In the first half of 2006, pre-tax profits for these firms reached $28 billion—34.6 percent higher than in the first half of 2005. For the four firms that have reported results through the third quarter of 2006 (Bear Stearns, Goldman Sachs, Lehman Brothers, and Morgan Stanley), pre-tax profits rose by 67.9 percent compared to the same period in 2005 and have already exceeded the amount earned in all of 2005.[1]

The impact of Wall Street's diversification and appetite for greater risk is apparent when comparing the profit margins (ratio of net income to total revenue) of broker/dealer operations with those of the overall operations at the large firms. On a consolidated basis, Bear Stearns, Goldman Sachs, Lehman Brothers, Merrill Lynch, and Morgan Stanley had a 2005 profit margin of 15.7 percent, well above the broker/dealer profit margin of 4.1 percent.[2] This disparity has continued into the first half of 2006. Even profit margins for broker/dealer operations at the largest firms were closer to the industry-wide broker/dealer average than to the collective profit margin at the firms.

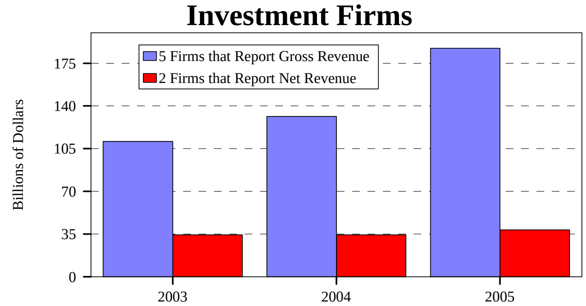
Wall Street Revenues

Although the definitions of revenue categories vary somewhat among the firms, on a broadly defined basis their major sources of gross revenues include investment banking (which includes mergers and acquisitions and underwriting); principal transactions (trading with the firms' own investment portfolio); asset management; and interest income.

Five of the seven firms—Bear Stearns, Goldman Sachs, Lehman Brothers, Merrill Lynch, and Morgan Stanley—report total revenues, while the remaining two—Citigroup Corporate and Investment Bank and JPMorgan Chase Investment Bank—report revenues that are the net of interest expenses.

For the first five firms, total gross revenues grew by almost 69 percent between 2003 and 2005. For the two firms that report on a net revenues basis, the increase during this period was 11.7 percent. Figure 2 shows annual revenues for these firms.

Figure 2
Total Revenues at Large NYC-Based Investment Firms



Note: The firms that report on a gross revenue basis are Bear Stearns, Goldman Sachs, Lehman Brothers, Merrill Lynch, and Morgan Stanley. The firms that report on a net revenue basis are Citigroup Corporate and Investment Bank and JPMorgan Chase Investment Bank.
Sources: U.S. Securities and Exchange Commission; OSDC analysis

Strong revenue growth has continued into 2006. For the five firms that report on a gross basis, revenues increased 59 percent compared to the first half of 2005. For these five firms, revenues in the first half of 2006 already exceed the amounts made in all of 2004. For the two firms that report on a net revenues basis, the increase was 26.4 percent.

1 These four firms accounted for approximately two thirds of the seven largest firms' collective pre-tax profits in the first half of 2006.

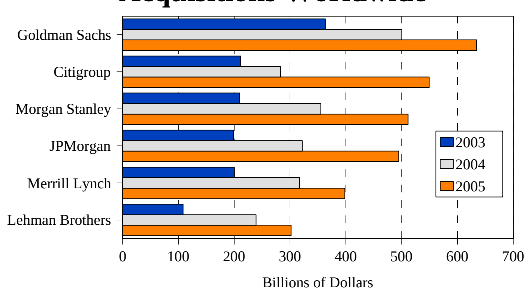
2 Citigroup Corporate and Investment Bank and JPMorgan Chase Investment Bank are excluded from the analysis of profit margins because their respective revenues are the net of interest expenses. For all other firms, interest expenses are identified separately.

Bear Stearns, Goldman Sachs, Lehman Brothers, and Morgan Stanley have each reported results (on a gross basis) for the third quarter of 2006. Although the pace of revenue growth slowed in the third quarter, on an aggregated basis these firms reported revenue growth of 54.7 percent for the first three quarters of 2006 compared to the same period of 2005. Revenues for these firms already exceed the amount earned in all of 2005.

Principal transactions were a major source of revenues for the large Wall Street firms in 2005—they accounted for the majority of total net revenues at Goldman Sachs (61.2 percent), Lehman Brothers (53.4 percent), and Bear Stearns (51.8 percent), reflecting the greater amount of risk these firms are willing to undertake with their own resources. Between 2003 and 2005, principal transactions increased rapidly—by almost 40 percent at the large firms. In the first half of 2006 they increased at an even faster rate of over 70 percent compared to the same period of 2005.

Figure 4

Volume of Completed Mergers and Acquisitions Worldwide



Note: The total activities for all firms may exceed the total value of transactions because more than one firm can participate in a single transaction.

Source: Thomson Financial

The large Wall Street firms have also seen their mergers and acquisitions business increase substantially since 2003. International deals are an important part of their business. According to Thomson Financial, six of the seven large Wall Street firms in our survey were among the top 25 firms for worldwide mergers and acquisitions activity in 2005.[3] In 2005, Goldman Sachs was the leading firm to provide financial advice in these transactions, participating in completed deals valued at $634 billion (see Figure 4)—an increase of over 75 percent from 2003. The value of completed deals for each of the other five firms at least doubled during this period.

Through the first three quarters of 2006, Goldman Sachs continues to lead the other firms; the value of its completed mergers and acquisitions rose by 32.2 percent compared to the same period in 2005, to reach almost $549 billion. This exceeds the Goldman Sachs level for all of 2004 and is close to the level for all of 2005.

Increased mergers and acquisitions activity has resulted in higher fees for Wall Street. Data from Thomson Financial shows that Citigroup, Goldman Sachs, JPMorgan, Merrill Lynch, and Morgan Stanley earned more than $1 billion each in related fees during 2005—led by Goldman Sachs, which earned almost $2 billion.[4] These five firms were also the top five fee earners worldwide.

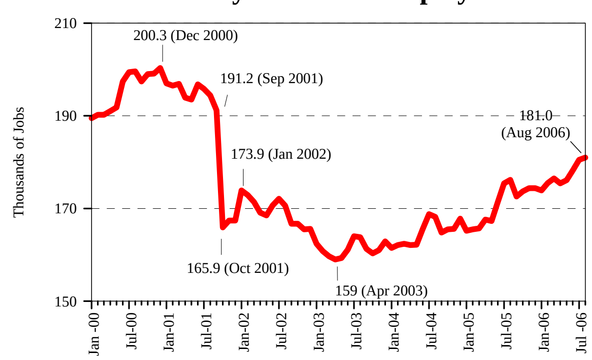
Fees have continued to grow in the first three quarters of 2006 compared to the same period in 2005. Of these firms, only Citigroup had growth of less than 25 percent. While Lehman Brothers earned less than $1 billion in fees in 2005, it has experienced growth of 25.2 percent in the first three quarters of 2006, which will increase fees to over $1 billion for the year.

Employment Trends

Employment in the securities industry peaked at 200,300 in December 2000 (see Figure 5). In the aftermath of the technology-led bear market, the terrorist attacks of 2001, corporate scandals, and other shocks in the early part of the decade, employment in the securities industry declined to 159,000 in April 2003.

Figure 5

New York City Securities Employment



Source: NYS Department of Labor

[3] Bear Stearns did not rank among the top 25 firms worldwide in 2005, but it did rank 14th in 2005 for domestic activity.

[4] Lehman Brothers earned $840 million in fees in 2005.

On an average annual basis, the securities industry lost over 34,000 jobs between 2000 and 2003. Over the following two years, the industry added 9,500 jobs, with employment averaging almost 171,000 jobs during 2005 (see Figure 6).

Growth was even stronger in the first eight months of 2006, with 7,800 jobs added compared to the same period in 2005 (although the year-over-year rate of increase has slowed as the year progressed, especially in July and August[5]). Because employment grew faster in the securities industry than in the rest of the City's economy, the industry's share of total City employment rose from 4.6 percent, on average, in 2003 to an average of 4.9 percent during the first eight months of 2006.

Figure 6
Wall Street Jobs and Wages

	2003	2004	2005
Employment (in thousands)			
NYC Securities Industry Employment	161.3	164.7	170.8
Percent Change		2.1%	3.7%
Difference		3.4	6.1
Cumulative Difference Since 2003			9.5
NYC Total Employment	3,531.7	3,550.3	3,599.4
Cumulative Difference Since 2003			67.7
Securities Employment as Percent of Total	4.6%	4.6%	4.7%
Securities Share of Change Since 2003			14.0%
Wages and Bonuses (in billions)			
Securities Industry Bonuses	$16.2	$18.6	$21.5 *
Percent Change		14.8%	15.6%
NYC Securities Industry Wages	$35.8	$43.6	$48.8
Percent Change		21.9%	11.8%
Cumulative Difference Since 2003			$13.0
NYC Total Wages	$206.7	$223.0	$236.8
Cumulative Difference Since 2003			$30.1
Securities Wages as Percent of Total	17.3%	19.6%	20.6%
Securities Share of Change Since 2003			43.1%

* Estimated by The Office of the State Deputy Comptroller.
Sources: NYS Department of Labor; OSDC analysis

New York City's share of securities industry employment, relative to both the State and the nation, has declined over the past decade. As illustrated in Figure 7, the City's share of New York State securities employment has declined by more than 4 percentage points since 1990. Much of this decline has occurred since 2000, primarily because securities employment has performed better in the rest of New York State than in the City. Possible reasons for this include back-office operations and backup facilities that were created outside the City in the wake of the 2001 terrorist attacks.

Figure 7
Securities Industry Employment

	NYC (in thousands)	NYC as a Percent of NY State	NYC as a Percent of U.S.
1990	154.9	94.0%	33.8%
2000	195.4	92.5%	24.3%
2001	188.1	91.6%	22.6%
2002	169.5	91.2%	21.5%
2003	161.3	91.2%	21.3%
2004	164.7	90.6%	21.5%
2005	170.8	90.2%	21.8%
2006	177.1	89.7%	22.2%

Note: 2006 is average for the first eight months.
Sources: NYS Department of Labor; U.S. Bureau of Labor Statistics

New York City's share of U.S. securities employment fell by more than 12 percentage points between 1990 and 2003. The City's share of national securities employment, however, has improved in recent years (see Figure 7), as growth in the City outpaced the rest of the nation.

Wages and Bonuses

Wall Street bonuses, after declining in 2001 and 2002 (to $10.1 billion at their lowest point), more than doubled by 2005 to reach an estimated $21.5 billion—the highest level ever. On average, bonuses for Wall Street employees reached a record of $125,500 in 2005. The growth reflected the strength in mergers and acquisitions activity.

Securities industry wages (which include bonuses) declined by over 22 percent between 2000 and 2003, but then grew by more than 36 percent in the next two years—more than three times faster than growth in the rest of the City's economy—to reach almost $49 billion (see Figure 6). By 2005, the securities industry accounted for more than 20 percent of total City wages, up from 17 percent in 2003.

New York City's share of securities industry wages paid in both New York State and the U.S. fell during the recession. With the recent economic recovery, the City's shares have rebounded as the rate of wage growth in the City has exceeded rates in the rest of the State and the nation. By 2005, New York City securities industry wages accounted for almost 95 percent of securities

[5] During the first six months of 2006, securities industry employment grew by 5.3 percent compared to the same period in 2005—nearly twice the rate of increase in July and August 2006.

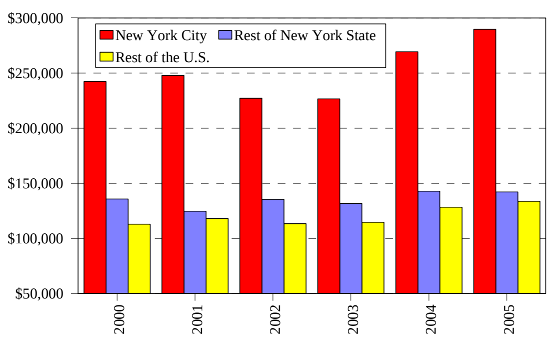
industry wages in New York State and 37 percent of all securities industry wages paid in the nation.

With wage growth outpacing employment growth, the average salary in the City's securities industry surged to a record $289,664 in 2005, a gain of almost 28 percent from 2003, when the average salary in the industry reached a decade low of $226,611. In the rest of the City's economy, the average salary reached $56,634 in 2005, an increase of 8.2 percent from 2003 levels. The average securities salary is now 5.1 times the average salary outside the industry—up from 2.5 times in 1990 and 4.3 times in 2003.

The average securities industry salary in New York City is more than twice that paid in the securities industry elsewhere in New York State ($142,193 in 2005) or the nation as a whole ($133,797), reflecting the high value–added activities that take place in the City (see Figure 8). Between 2003 and 2005, average securities industry salaries have risen at a faster rate in the City than elsewhere in the State or the nation.

Figure 8

Average Salaries in the Securities Industry



Source: NYS Department of Labor, U.S. Bureau of Labor Statistics

Economic Multiplier

The economic impact of the securities industry extends well beyond Wall Street. The direct effects of any expansion are felt by the City through employment and wage growth, which in turn lead to indirect and induced effects. Indirect effects come from an industry's demand for additional goods and services, which results in job creation in other businesses. Induced effects come from increased personal spending by the people who hold these new jobs. By using a well-known input-output model, we can estimate the total impact that job growth in securities has on the local economy, as well as the spillover effects in City suburbs.

According to the model, the addition of 9,500 jobs in the securities industry between 2003 and 2005 resulted in the creation of 3,040 jobs in other industries and an additional 15,830 jobs because of increased consumption. Most of the jobs indirectly created through business interaction with the securities industry are in relatively higher-paying export-oriented industries such as legal services, accounting, management consulting, business support, and banking—which also serve markets beyond the City. By contrast, the induced-effect jobs created from spending by direct and indirect hires are primarily in more locally oriented industries, such as retail trade, health services, and restaurants, where pay levels tend to be below the Citywide average.

Because each new job in securities leads to the creation of an additional two jobs in other industries in the City, a total of 28,370 new City jobs can be attributed to job growth on Wall Street between 2003 and 2005. This represents 42 percent of the City's total job gains during that period and is a greater percentage than during the latter half of the 1990s, when Wall Street (both directly and indirectly) accounted for 25.8 percent of the jobs gained in the City. Based on this multiplier and the current level of securities industry employment, one in seven jobs in the City is now either directly or indirectly associated with Wall Street.

In addition, some business transactions and spending outside the City are attributable to job growth in the City's securities industry. The model estimated that each new securities job led to the creation of an additional job in another industry in the rest of the State—primarily due to the induced effects from spending by securities industry employees who commute from the suburban counties of the State.[6] As in the City, most of these jobs were in locally oriented sectors.

In total, securities industry job growth in the City created more than 41,000 new jobs in the State between 2003 and 2005. This accounts for

[6] In 2000, U.S. Census Bureau data showed that commuters held more than 37 percent of Wall Street's jobs and accounted for almost 48 percent of the industry's wages.

33.8 percent of the State's total job gains during that period.

Tax revenues

Wall Street's rebound has also contributed to New York City's recent budget surpluses. In FY 2005, total securities industry tax payments of general corporation, unincorporated business, and personal income taxes, including payments on realized capital gains, reached almost $2.1 billion—nearly 11 percent of that year's total nonproperty tax receipts. Payments had peaked at $2.3 billion in FY 2001, and by FY 2003 the industry downturn reduced payments to $1.1 billion. Although more recent data are still incomplete, our analysis indicates that securities industry–related tax collections in FY 2006 will reach a new record of about $2.4 billion.

The increase in securities industry–related tax revenues between fiscal years 2003 and 2005 accounted for more than 15 percent of the change in total nonproperty taxes in those years. The majority of the additional securities-related tax revenue was due to increases in personal income tax payments.

NYSE Challenges

The NYSE remains the world's largest stock exchange. Its listed companies had a market capitalization of $13.3 trillion in 2005, or 32.5 percent of the worldwide capitalization on the major exchanges. By several measures, however, the NYSE has become less attractive as electronic trading and other market demands have reshaped capital markets worldwide.

For example, in 2005 the NYSE accounted for 5.4 percent of new listings worldwide, while the London Stock Exchange (LSE) accounted for 23 percent.[7] Domestically, a larger volume of share trading has been going to the NASDAQ—of the shares listed on both exchanges, the NASDAQ handled 12.9 percent of the transactions in September 2006, up from 2 percent two years earlier.

Part of the shift in international business has been attributed to regulatory changes since the U.S. corporate scandals. In their aftermath, reform was widely regarded as necessary in order to increase protection for investors. The resulting legislation—commonly known as Sarbanes-Oxley—has generated controversy over specific provisions and associated compliance costs. The differences between U.S. and foreign regulatory environments are causing many businesses, lawmakers, and government officials to argue that U.S. markets are now at a competitive disadvantage, leading to calls for revisions to certain provisions of Sarbanes-Oxley

The City's Economic Development Corporation has recently engaged a consultant to help formulate a strategy to improve New York City's competitive position relative to London, which in recent years has grown rapidly as an international financial center.

In response to the evolving nature of the financial marketplace, the NYSE has been working to recreate itself in order to remain competitive and grow. In March 2006, it completed its acquisition of Archipelago Holdings Inc., a Chicago-based all-electronic trading exchange, and converted itself into a publicly traded firm known as NYSE Group. This transaction was intended to give the NYSE more flexibility in operations and raising capital, aligning it with the publicly owned structure utilized by other exchanges, including the Chicago Mercantile Exchange, Germany's Deutsche Börse, and the LSE.[8]

The NYSE is also moving to broaden its product mix into multiple asset classes. Two potential areas are derivatives (futures and options) and fixed income. The exchange's new structure will allow it to diversify through ownership interests in other exchanges and to expand its trading platform. Increased use of electronic trading will be used to expand bond trading; during all of

[7] During the technology-led boom that ended in 2000, the NASDAQ accounted for the largest share of new listings. Since then, the LSE has emerged as the leader, with 626 new listings in 2005, a 48 percent increase over 2004.

[8] The new structure raises a possible regulatory issue, as the now profit-oriented NYSE is also, according to SEC regulations, the regulator of its own profit-oriented member firms. As a result, the exchanges have called for a restructuring of firm regulation.

2005, less than $1 billion in bonds was traded on the NYSE.[9]

The expanded use of automation and electronic trading is especially critical to the NYSE's future market relevance. Domestically, the NYSE is losing market share to electronic exchanges such as the NASDAQ. Until now, trading on the NYSE was handled solely by specialists and brokers on the exchange floor. The NYSE's Hybrid Market combines an electronic trading platform with the traditional NYSE trading floor. After a period of testing, the SEC approved the Hybrid Market in late March 2006, and full implementation began in October 2006. Increased use of electronic trading is likely to reduce employment among floor brokers and specialists.

The NYSE Hybrid Market is also a response to regulatory demands. In April 2005, the SEC adopted Regulation NMS (National Market System), which modernizes the regulatory structure of the U.S. equity markets. One of those regulatory requirements is the Order Protection Rule (or prohibition on trade-throughs, Rule 611). The new regulation will divide U.S. exchanges into "slow" and "fast" markets based on their ability to offer the automatic and immediate execution of trades. The rule requires exchanges to satisfy better-priced quotes in other fast markets before filling orders in their own markets. Fast electronic markets will have to link up with each other to execute trades. If the NYSE does not have the proper capability in place when these regulations take effect, it will risk being ignored by the fast markets.

In May 2006, in an effort to respond to changes in the global financial markets and further expand its operations, the NYSE announced a $10.2 billion stock and cash offer for Euronext, the pan-European exchange that operates the Amsterdam, Brussels, Lisbon, and Paris exchanges, as well as a London-based derivatives exchange. This would be the first multiproduct, multicurrency, transatlantic exchange; its listed companies would have a total market value of $27 trillion, significantly dwarfing all other exchanges. It would give the NYSE access to a European electronic exchange and a derivatives market; would allow transactions in NYSE-listed firms to be quoted in euros and those in European stocks to be quoted in dollars; and would create a larger pool of capital to attract future IPOs.

The successful completion of the merger, projected for early 2007, is uncertain. The German bank Deutsche Börse has submitted a competing bid, which has received support from some policy makers in Europe who favor an all-European stock exchange.[10]

The NYSE's international merger parallels similar efforts by the NASDAQ, which has been accumulating a significant stake in the LSE—as of mid-May, the NASDAQ had raised its holdings to 25.1 percent of the LSE.

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[9] Another regulatory issue that needs to be addressed is that equities and derivatives currently trade on different exchanges and are regulated by separate agencies, while in most other parts of the world the regulation of futures and equities is combined.

[10] European businesses are concerned that a U.S. merger would subject them to U.S. regulations, especially Sarbanes-Oxley. U.S. regulators have responded that if completed, the merger would not subject non-U.S. markets and their listed businesses to U.S. regulations.

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