

submissions from other interested parties. At the October 2, 2003 Board meeting, the Special Committee presented 33 recommendations for enhancing the NYSE's governance.

Interim Chairman Reed accepted his current position with the goal of revamping the Exchange's governance to resolve conflicts of interests and to increase transparency. He committed the NYSE to complying with the governance standards comparable to those to which its listed companies adhere, and to going beyond those standards in order to meet the special challenges of serving as both a marketplace and a self-regulatory organization.

Following further study, including extensive discussions with the NYSE's varied constituencies and the SEC, Interim Chairman Reed developed the governance structure that forms the basis of the Constitutional amendments: the engaged separation of the Board of Executives (constituent representatives) from the Board of Directors (independent fiduciaries). That approach departs from the approach espoused by the Special Committee, which struggled to retain independent directors and constituent representatives in the same governance body. However, the dual board approach otherwise extends the Special Committee's recommendations: except for five of them that cannot be addressed until the new Board is constituted, all of the Special Committee's recommendations have been incorporated into the proposed amended and restated Constitution, either literally or in concept, or are otherwise reflected in this proxy statement.

Proposal to Amend and Restate the Constitution

The next several pages discuss in more detail than the cover letter many of the important changes that your vote will effect, and also provide collateral information. The amended and restated Constitution reflecting these changes is attached as Annex A to this proxy statement. In addition, attached as Annex B is the amended and restated Constitution marked to reflect the revisions from the existing Constitution. A diagram depicting the separate, but engaged, independent and constituent boards is attached as Annex C. While the cover letter and the discussions below seek to bring to your attention many of the important changes that your vote will effect, members are urged to carefully review the marked Constitution so they will see the specific

language used to effect the new governance architecture.

Board Authority and Accountability

The Board of Directors, including its Chair, is ultimately responsible to the members of the Exchange (owners) and to the investing public for the performance of the NYSE. The Chair is specifically responsible for the proper functioning and the performance of the Board. To that end:

Operations

The Board will (a) overview the performance of the Exchange, its relationships with the investor, listed company and broker community and its role as a public voice, (b) overview the performance of the Exchange's responsibility as a regulator of the trading Floor, of the broker-dealer community and of listed companies and its relationship with other regulators, (c) overview management's assessment of the Exchange's exposure to risk, both in its regulatory and business functions, and (d) act as the final approval authority on the budget, with a separate process for the budget and staffing for the regulatory function, on major expenditures, technology spending and plans and rules or relationship changes. With regard to the above, the Board will understand management's plans and aspirations and will be kept current with regard to progress or problems related to them.

Strategy

The Board will be kept apprised of the strategic position of the Exchange and of the many currents impacting on the Exchange's evolution as a business and as a regulator. It will provide advice and counsel to the management and approve plans and decisions impacting this evolutionary pathway.

Behavior

The Board will assure appropriate behavior through the work of the Audit Committee and the Regulatory Oversight & Regulatory Budget Committee and through an annual assessment of management which takes into account both operational performance and its leadership behavior—emphasizing integrity, respect for the people and culture of the Exchange and its public role.

Management

The Board will assess management performance, create and oversee appropriate compensation and recognition practices, and hire/fire individuals in management positions as needed. The Board will ensure that

appropriate management succession and development plans are in place and functioning.

Assessment

On an annual basis, in Executive session, the Board will discuss its own performance. It will at least ask each director to indicate (a) if the Board's responsibilities are clear, understood and appropriate, (b) if he/she feels that he/she has appropriate, timely and accurate information to reasonably meet his/her responsibilities, and (c) if the organization of the Board, its agendas, Board membership, time and discussions are appropriate to reasonably meet the Board's responsibilities. In each instance, if there is a negative view, ideas for improvement should be discussed, and, if appropriate, implemented. The process will be documented. Importantly, the Board will have the authority that boards of publicly-owned corporations have to amend its own governance by-laws to effect improvements, subject to a special provision for notice to members of proposed changes. Provided that a director is performing well, there is no need for him or her to face term limits and thereby sacrifice his or her familiarity with our unusual institution and institutional memory.

Board of Executives

Responsibilities

To engage with the senior management and the Board of Directors of the NYSE to review on an ongoing basis (a) Exchange performance, (b) membership issues, (c) listed company issues, and (d) public issues relating to overall market structure and performance.

Functioning

The Board of Executives will meet regularly (to start: six times per year), will populate committees jointly with the Board of Directors, and will engage in an annual self-appraisal to ensure continuing effectiveness comparable to that described above for the Board of Directors. The Board of Executives will be chaired by the NYSE Chair and include the CEO (if different).

Members

Approximately 20, appointed by the Board of Directors of the Exchange. It will be fairly balanced and include (a) executives of the major broker dealers, (b) representatives from the Floor, (c) lessor members, (d) executives of listed companies, and (e) executives of institutional investors and of large public funds. The Nominating &