

Governance Committee will solicit input from each constituent group for candidates to represent the group on the Board of Executives.

Governance and Management

The Board of Directors and its Chair are ultimately responsible for the performance of the Exchange, as seen by its owners, the public and its many professional constituencies.

The Chairman is specifically responsible for the proper functioning and performance of the Board.

The Board of Executives is an integral part of the governance process, advising NYSE senior management in both its operational responsibilities and its role as a public spokesperson. The composition, meetings and agenda of the Board of Executives are designed to ensure that the Exchange meets the operational performance requirements of its constituent parties: the Floor community, member organizations, the listed companies and investors, large and small * * * also to provide comment about the regulatory functions—working to ensure that these are tough, but practical and fair * * * and finally, to bring the constituents' point of view to senior management's role as a spokesperson for the U.S. capital markets.

The Board of Directors will meet at least quarterly, and the Board of Executives, at least six times a year. The Board of Directors will join with the Board of Executives on dates when their meetings overlap (probably two to three meetings) and then move to their own Committee and Board sessions.

There are three types of committees: those including directors only (Nominating & Governance, Audit, Regulatory Oversight, and Compensation); those drawn from both boards but with a voting majority of directors (Regulation, Enforcement & Listing Standards); and those drawn from both boards without designated composition (Market Structure & Strategy, Quality of Markets/Public Policy and Finance). All committees will report to the Board.

Each Board and, as appropriate, committee will define a self-assessment procedure which will be appropriately documented. Board processes are expected to improve in response to these assessments.

Below are discussed five areas of particular concern: regulatory function; hiring, firing, compensation and succession; nominations; the engagement of the Board of Directors with the Board of Executives; and engagement with the membership.

Regulatory Function

The proposed architecture provides for a strong, vigorous and independent regulatory function. The Board will hire a Chief Regulatory Officer whose line reporting relationship will be to the Board's Regulatory Oversight & Regulatory Budget Committee. The Board Regulatory Oversight Committee will determine the Exchange's regulatory plan, programs, budget and staffing proposals annually and will be responsible for assessing our regulatory performance and for recommending compensation and personnel actions involving senior regulatory personnel to the Board's Compensation Committee. The CEO's views on the regulatory function, its plans, programs, staffing and budget will be sought, but the Regulatory Oversight Committee's views on regulatory performance will be recommended through the Compensation Committee to the full Board for approval.

Hiring, Firing, Compensation and Succession

The Board of Directors has the responsibility to hire/fire and compensate the NYSE's senior management, and ensure that an appropriate succession plan is in place. The Board's Human Resources & Compensation Committee will keep current on appropriate benchmarks that will inform compensation recommendations and will evaluate the NYSE's performance and that of key individuals and major units each year as a part of the annual review process. Performance will include "hard measures" such as market share, listing activities, revenues and expenses, but also "softer issues" such as the working environment, culture and morale of the various groups that make up the Exchange, progress that is being made in relationship with the ongoing discussions about market structure and performance, and the relationships of the NYSE with its many constituencies and the SEC. The CEO will interact with the Committee on both compensation and performance (other than his or her own), but the Committee's ultimate decisions will be made in executive session without either management or staff present. The recommendations of the Committee and those that are forwarded from the Regulatory Oversight Committee will be reported to the full Board for its approval.

Nominations

A six to twelve person Board will be composed of individuals who are "independent" and owe their loyalty to

the NYSE. The Board will set the size of its membership within these parameters and can change the size as appropriate between annual meetings. The Nominating & Governance Committee is responsible for proposing a slate of directors for election by the members, except that two or three nominees will be proposed by the Industry Members of the Board of Executives in order to comply with the requirements of the Securities Exchange Act of 1934 (the "Act") regarding the fair representation of members. Nominees will be selected on the basis of their competence to fulfill the duties and responsibilities of a director—however, a special process will be created to solicit potential candidates who are both qualified and independent from the management and from regulated constituents. If such person is nominated and elected he/she becomes a director with all the attendant obligations and duties and in no way can represent any special interests.

Engagement of the Board of Directors With the Board of Executives

Outlined above are the duties, responsibilities and composition of the Board of Directors, of the Board of Executives, and of the Committees, including joint participation on membership and marketplace issues. As the keystone to the engagement between the two boards, the Board of Directors will meet with the Board of Executives from time to time but, in addition, the Board of Directors will always meet alone. Discussion of issues of importance to the industry involving NYSE operations, regulatory issues and listing functions (other than individual disciplinary or delisting cases) will be the subject of Board of Executives meetings, as will be discussions of market structure and performance. The operating (non-regulatory) budget of the NYSE and other financial issues will be the subject of discussion at meetings of the Finance Committee, which is joint, because the NYSE's revenue comes from the constituents represented on the Board of Executives and they should have an appropriate forum to discuss revenues, expenses, and related financial issues (taxation and representation). However, specific proposals that are recommended by the Finance Committee must come to the Board of Directors for ultimate approval, just as recommendations of the Board of Executives about operating issues or strategic issues ultimately are advisory to the Board of Directors (though the weight of judgment and expertise on the Board of Executives will clearly be of importance). In areas where expertise is