BC3402 Tutorial 1: Question 2

Kalana Manika Hennedige
Justina Quak Lin Ying
Jeremy Teo Tze Png
Chloe Ho Zi Ying

What are the main differences between NYSE and NASDAQ in terms of their operations?

What are the main differences between NYSE and NASDAQ in terms of their operations?

Point 1: Listing Requirements (2003)

NYSE	NASDAQ
• Much more stringent listing requirements • Require market capitalization of at least 60m, with earnings of at least 6.5m over the past 3 years (or 2.5m in the past year)	• Not as stringent • Require market capitalization of at least 8m, with earnings of at least 1m in the past year

---

What are the main differences between NYSE and NASDAQ in terms of their operations?

Point 1: Listing Requirements (Now)

NYSE	NASDAQ
• Requires firms to already have 1.1 million publicly-traded shares outstanding with a collective market value of at least $100 million	• Requires firms to already have 1.25 million publicly-traded shares with a collective market value of $45 million.
Both requires a minimum security listing of $4 per share	

What are the main differences between NYSE and NASDAQ in terms of their operations?

Point 2: Ownership Structure & Organization

NYSE	NASDAQ
• Not-for-profit organization • Co-owned by members holding 'seats' • Need a seat in order to bid and participate in the stock market • 1366 seats available	• For-profit organization

What are the main differences between NYSE and NASDAQ in terms of their operations?

Point 3: Business Model

NYSE	NASDAQ
Main sources of revenue: 1. Listing Fees 2. Market Data Fees 3. Regulatory Fees 4. Trading Fees	Main sources of revenue: 1. Transaction services Execution of trades e.g. over the SelectNet platform 1. Market information services Data vendors that buy varying levels of quote and trade information for resale 1. Corporate client group services Issuer services/listing fees

What are the main differences between NYSE and NASDAQ in terms of their operations?

Point 4: How it works

NYSE	NASDAQ
1. Driven by specialists who act as the auctioneer of their stock 2. Trades are completed between floor brokers and specialists 3. Specialists work to avoid large price variations between consecutive sales	1. Driven by market makers who compete for orders by quoting bid and ask prices 2. On average, a single stock tends to be traded by 14 different market makers 3. Utilizes alternative trading systems

What are some of the challenges faced by NYSE and NASDAQ during the time this article was written (2003)?

Slide 1

What are some of the challenges faced by NYSE and NASDAQ during the time this article was written (2003)?

ECNs were challenging the traditional market maker / broker model
1. Automatic.
2. Anonymous.
3. Low cost.
4. Fast.
5. After-hours Trading

ECNs were successful in capturing trade shares on the NASDAQ and the lower trading shares of NYSE-listed securities

Slide 2

What are some of the challenges faced by NYSE and NASDAQ during the time this article was written (2003)?

Situational factors at the turn of the century
1. Burst of the dot-com era
    a. Dotcom bubble was a rapid rise in U.S. technology stock equity valuations fueled by investments in Internet-based companies during the bull market in the late 1990s, causing the value of equity markets to rise exponentially
    b. The Nasdaq, which rose five-fold during this period, saw an 75% drop, resulting in a loss of billions of dollars.

Slide 3

What are some of the challenges faced by NYSE and NASDAQ during the time this article was written (2003)?

Situational factors at the turn of the century
2. Series of corporate accounting scandals - Enron and WorldCom Scandals
    a. Enron Scandal
        i. The collapse of Enron, which held more than $60 billion in assets, involved one of the biggest bankruptcy filings in US history
    b. WorldCom Scandals
        i. The WorldCom scandal (2002) which included senior executives at WorldCom led by founder and CEO Bernard Ebbers orchestrating a scheme to inflate earnings to maintain WorldCom's stock price.

Slide 4

What are some of the challenges faced by NYSE and NASDAQ during the time this article was written (2003)?

Situational factors at the turn of the century
3. Bear Market
    a. Equities entered a bear market after the dot-com bubble burst and series of corporate accounting scandals
    b. Bear market: when the market is down 20% for at least a 2 month period, often accompanied by negative investor sentiment and declining economic prospects. Investors are also more risk-averse.

Slide 1

What are some of the challenges faced by NYSE and NASDAQ during the time this article was written (2003)?

Stricter corporate-governance and investor-information requirements
1. Sarbanes-Oxley Act (2002)
   a. Strict new rules & recordkeeping requirements
   b. New criminal penalties for violating securities laws.
2. Affected both markets ability to attract new companies to be listed on their respective exchange
   a. High cost of SOX compliance
   b. Smaller and foreign companies forced to delist

Slide 2

What are some of the challenges faced by NYSE and NASDAQ now? How do you think information technology will help address these challenges?

Slide 3

What are some of the challenges faced by NYSE and NASDAQ now? How do you think information technology will help address these challenges?

Uncertainty brought by COVID-19
   a. Stock exchanges disturbed by unique trends, like shutdowns and exacerbated supply chain issues
   b. Uncertainty about the trajectory of recovery which can contribute to stock market volatility
   c. Dominance that NYSE and NASDAQ used to hold is uncertain now
   d. However, the combination of vaccines and a growing font of data about COVID-19 has taught the market "to look through each wave of the pandemic." Market jitters over omicron also subsided relatively quickly in late Nov or early Dec

Slide 4

What are some of the challenges faced by NYSE and NASDAQ now? How do you think information technology will help address these challenges?

Increased pervasiveness of market manipulation and other unethical/problematic practices
   a. Social media and the increased connectivity around the world
      i. Much easier to coordinate the buying and selling of stocks
      ii. Might also have the effect of perpetuating market manipulation
         1. @elonmusk
         2. GameStop
   b. Solutions: More advanced predictive solutions to analyze and determine & flag suspicious activity

What are some of the challenges faced by NYSE and NASDAQ now? How do you think information technology will help address these challenges?

Landscape is constantly shifting - exchanges need to keep up
   a. Trading of cryptocurrencies and blockchain-based securities
      i. Decentralized vs Centralized
   b. Japan's Financial Services Agency has allowed the Japan Exchange Group, which operates the Tokyo Stock Exchange, to use blockchain as its core trading infrastructure
   c. In 2015, Nasdaq unveiled the use of its Nasdaq Linq blockchain ledger technology to successfully complete and record private securities transactions