

The Archipelago Exchange Seeks Market Reforms that Preserve Innovation, Encourage Competition and Provide Investor Choice

-- True investor protection must include **all** firm limit orders, not just those at the best bid and offer. --

Washington, DC – July 21, 2004 – In testimony to the Senate Committee on Banking, Housing and Urban Affairs on July 21, 2004, Jerry Putnam, CEO of the Archipelago ExchangeSM (ArcaEx[®]), commended the SEC's efforts to modernize the U.S. equities markets but encouraged intervention only in areas where competition had not already cured the markets ills.

Putnam restated his 2002 proposal for trade-through reform that would “allow markets with firm quotes to trade-through markets with non-firm quotes, but not to trade through markets with firm quotes,” ensuring that “only true prices are protected and afforded the ability to instantaneously execute when at the best price.”

Although generally agreeing with the NYSE proposal to reform the trade-through rule, Putnam challenged the NYSE reforms stating that they did not go far enough to protect the interests of individual investors. Putnam cited that the “competitive forces in the OTC market have essentially caused all market centers to respect **all** limit orders, not just those at the best bid or offer (BBO).” Contrasting this to the listed market place where a trade-through rule exists but is not followed or enforced and only protects the BBO.

When commenting on the market access proposal, Putnam endorsed “increased access as a means to encourage competition” but cautioned “markets should set rates, not government.” Expanding on this concern, Putnam said that “by setting maximum access fees, the SEC would engage in ratemaking, substituting its views for that of the markets,” and questioned “what would prevent the SEC from regulating maximum advisory fees for mutual funds, setting the spreads for market makers, establishing fee caps for retail brokerage firms, or setting the maximum investment banking fees.”

Citing an overly complex market data proposal, Putnam stated “that it merely reconfigures the revenue for existing participants without injecting competition into the mix” and recommended a “better approach would be to let the marketplace make its own judgments about market data economics, and the best mechanism for doing so is a competitive consolidator model.”

A copy of Jerry Putnam's complete written testimony is available on the Archipelago website at

<http://www.archipelago.com/content/letters/RegNMSandMktStructTestimony072104.pdf>

About Archipelago

The Archipelago Exchange (ArcaEx) is dedicated to openness, transparency and equal access to equity markets. ArcaEx's advanced technology, open architecture and unbiased trading platform provide investors with fast, cost-efficient and anonymous market access. On October 25, 2001, the SEC approved the rules creating ArcaEx. The exchange features a trading system that searches for the best execution for each order. ArcaEx is the first totally open, fully electronic stock exchange to trade in all New York Stock Exchange[®], Nasdaq[®], American Stock Exchange[®] and Pacific Exchange[®] securities. ArcaEx is regulated by the PCX, a registered exchange. The Archipelago ECN, a precursor to ArcaEx, was one of the four original ECNs, formed in December 1996 with Townsend Analytics. For more information about the Archipelago Exchange, please visit www.archipelago.com.

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