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“Entrepreneurship and Risk”

Thanks, David, for that kind introduction. It's always good to be here. The Chamber has been a vital platform for the business and financial community during the financial crisis and it will continue to be as we slowly dig our way out.

I imagine many of you probably came here today wondering what is going to happen in the markets. I can't tell you the direction of the indices, but here's a snapshot of where we are right now. There is more good news now than there was several months ago.

Trade volumes for the U.S. equity markets as well as the world's major market centers are trending upward this year. Share volume in U.S. Equities YTD (January - April 2009) is up 40% over the same period during 2008. The DJIA is up 30% from its low in early March (March 9, 2009). The S&P 500 is up 35% from its low. The NASDAQ Composite is up almost 40% from that point.

The CBOE Volatility Index fell below 30 last week, its lowest point since September of last year. It was as high as 80 last November.

NASDAQ now has 97 IPO applications in the pipeline. We look forward to welcoming these and other companies to our market. Average daily shares traded across all US exchanges is up 25% over last year. In 2009 we've averaging over 11 billion shares a day. That compares to less than 9 billion in 2008 and about 2 billion per day ten years ago.

Global equity prices rose over 30 percent in the first quarter, according to the FTSE All World ex Japan index.

But as you know, real GDP declined by 6.1% in the first quarter of this year from the fourth quarter of 2008. The consensus forecast still predicts a 2.7% decline in GDP for the year as a whole. We are still in the midst of a severe recession.

This economy will recover and it is apparent what will lead to that recovery. There are two integral factors to our economic recovery and those are the re-regulation of our financial markets, and the careful preservation and support of American entrepreneurship. These are two engines that facilitate and drive our economy and NASDAQ OMX has a strong and vested interest in both.

Sometimes clichés are true. Entrepreneurship is the foundation of American capitalism. Americans have always been entrepreneurs, but since the 1980s, we, virtually alone, among the nations of the world, moved to an entrepreneurial model of capitalism: the small business, the venture capital fund, the public company.

Fundamental to entrepreneurship is risk. Most basically, an entrepreneur is a person who takes a risk -- to build a business, to develop a new invention, to put one's own life's savings on the line in pursuit of a good concept. As you well know, investors are a fundamental part of the risk equation as well. Equity investors turn their capital over to a company without any guarantee of a positive return. That's as true for a small investor as for a major pension fund or venture capital group. Americans have been uniquely willing to put their capital at risk in the hopes of great returns, but with an understanding that the opposite is always possible.

So we must consider whether that positive culture of risk-taking and its benefits is under threat today.

First we need to understand how important risk taking is to our economic life. As we deal with the devastating problems that came from a *misunderstanding* of risk, which I'll address later, we don't want to destroy the spirit of entrepreneurship that fundamentally depends on a willingness to accept and take on risks. That's what a biotech company does when trying to find a cure for MS or cancer. That's what a technology company does in developing new products and services that transform your life. But sometimes, people lose money. And that's part of the system, too.

This whole constellation of issues is very important to us at NASDAQ. What policies should we adopt during this financial crisis not just for larger companies but for emerging companies to help them grow? Are we creating policies that encourage the formation of the next Cisco? Founded in 1984 by a husband and wife team from Stanford University, Cisco IPO'd in 1990 and became part of the DOW 30 just yesterday.

On a positive note, *The Economist* magazine recently stated that "For all its current economic woes, America remains a beacon of entrepreneurialism." Venture capital funds still lie at the heart of our system for raising capital. *The Economist* also noted the pattern at one major VC firm, Highland Capital. They receive about 10,000 plausible business plans a year, make about 1,000 company visits, and invest in 10-20 companies. That's a high bar for an entrepreneur -- 0.1 percent of plausible plans eventually get funded by Highland -- but it forces a discipline that's a key ingredient in business success. The strong VC role in our economy is almost unique to this country -- it's been claimed that there are 50 times as many angel investors in the U.S. as in Europe.

Our openness to new ideas and new people strengthens us as a nation. About 52 percent of Silicon Valley startups were founded by immigrants. I've spoken out before on the need for a sensible immigration policy, especially removing the arbitrary cap on H-1B

visas that growing companies, particularly in science and technology, need. I feel passionately about this issue and hope Congress will address it.

When I think of the spirit of entrepreneurship on NASDAQ, I think of companies like Athenahealth, from Massachusetts, which provides Internet-based services for the business side of physicians' practices, increasing efficiency in the medical profession and thereby lowering costs. This company started by working to assist just one medical practice. It went public in September 2007, and was hugely oversubscribed; the company raised 13 times the cash it expected.

Or when we think about green energy -- a very hot topic in Washington today -- I think of companies like Broadwind Energy, which provides components, logistics and services to expand use of wind power. They recently moved to NASDAQ from the over-the-counter market, and their stock is up 122 percent, with their market cap rising nearly half a billion dollars since early April.

A willingness to take risks and try new ideas brings new life to the American economy.

My particular prism is as head of the largest exchange company in the world, one that operates markets around the globe. And when I say we operate markets, I mean just that. We don't control the direction of indices -- though we would like to -- but rather we focus on providing a transparent market where there is equal access for investors, and where values are real and posted in real time for all to see.

And with entrepreneurship in mind, I'd like to offer a three-point roadmap focusing on financial markets and the companies that raise capital on them. I want to raise three issues of concern for the future of American capital markets. Each involves promoting entrepreneurship and managing risk.

First is the appropriate reform and regulation of markets founded on the twin principles of transparency and competition.

During this financial crisis, America's licensed markets have performed as everyone would hope. They did not freeze, they worked as advertised. We enabled investors to trade and provided needed transparency, despite unheard-of volatility and volume. We must ensure that all capital markets are liquid, efficient and well regulated.

Looking back on the events that led to the current credit crisis and economic downturn, I believe the crucible of the problem was bad decision making based on bad information. What was wrong with the information?

Throughout the economy, trillions of dollars in investment instruments were never subject to the rigor of trading on a transparent, well regulated market. In the absence of a market determined price, firms, which were far removed from the origination of the transaction risk relied on third party agencies and/or valued these assets on a theoretical model which, in the words of Warren Buffet, turned out to be a myth. As a result we had a tremendous number of complex instruments on the books of banks and businesses whose value was opaque and ultimately were significantly mispriced.

These particular credit instruments were traded "Over the Counter" or OTC in the industry jargon, which essentially means they are traded between limited numbers of parties with no external validation, based on information not available to everyone. In the OTC world, values can be distorted to the benefit dealer and detriment investor in a fashion not unlike the game of "Telephone" you might have played as a kid. Because these instruments were not valued in the real market, because they were not transparent and lacked a central clearing facility, unrecognized risk piled on unrecognized risk. This is a dimension of risk that should be discouraged by policy and practice.

Thus the former leaders in the banking world came to work in the morning and left every day without any idea of the true value of the assets on their books. No one ever got a report that said "Your OTC derivative portfolio lost \$5 billion in the market today." In fact, many CEOs -- based on the information their "mark to model pricing" calculated -- continued to double down their bets on subprime mortgages in the period leading up to the Bear Stearns meltdown.

That's why the first focus of regulatory reform must be the over-the-counter derivatives market. As you know, the Treasury Department has now presented its plan for regulating the OTC derivatives markets, focusing on central clearing for standardized derivatives products. Some entrenched interests criticized this plan, but I endorse it wholeheartedly. We commend the Obama Administration's move towards greater competition and transparency in these markets.

Some day in the future, we will see this new derivatives policy, if implemented, as central to our regulatory protections as deposit insurance has been since the Great Depression.

When OTC derivatives are centrally cleared, the risk involved is better distributed. Fundamentally, central clearing means that all parties in a market are backing a transaction rather than only the direct participants. The current system is only as strong as the weakest link as evidenced by Lehman or the perceived weakest link, as evidenced by all counterparties after the Lehman failure.

We look forward to the day when vast responsibility for the bulk of the over the counter market are no longer stored in the back rooms of brokerage houses, but held in well capitalized clearing houses, open to more than just a small cartel of banks and transparent to all. And the most liquid of those products can trade, like any instrument found on an

exchange today. As we go forward in time we will see the advantages of having central counterparty clearing systems and the benefits of having price discovery being transparently displayed. We'll have prices determined openly, and the costs and risks of using derivatives will be clear to corporate derivatives users, not hidden as now.

And we will have taken a major step forward in measuring, managing, and assessing risk.

It is possible to transform an OTC market into one that is centralized, open and transparent to all -- NASDAQ has done it. We were born out of a need to share information about stock trading in a central fashion accessible to all, a system designed to protect investors and facilitate discovery of the right price for a particular security. We continue to operate on that simple principle -- a willing buyer and a willing seller agreeing on a price in an open market.

The second major issue I want to discuss is streamlining and reforming the financial regulatory architecture. We have a wonderful opportunity to fundamentally rethink our system of regulation and the responsibility to develop a uniquely American model reflecting our heritage of entrepreneurship and risk that nevertheless fulfills William O. Douglas' vision to protect investors.

The objective should not be more regulation or less regulation: it should be what I term "re-regulation" -- smarter and more efficient. We need new rules on the books that reflect the world that exists today. And government agencies should encourage self-regulation where it is well proven and where government resources can be freed up for higher priorities.

NASDAQ OMX has endorsed the concept of a systemic regulator. As FDIC Chairman Sheila Bair has stated, "Our current system has clearly failed in many instances to manage

risk properly and to provide stability.” Policymakers and the Administration have to make a choice as to whether the systemic regulator is a new entity, an enhanced President’s Working Group design or whether to park the new authority at a place such as the Federal Reserve. Each option has advantages and disadvantages that we will need to weigh, but getting that cop on the beat, the regulator concerned with the interwoven and mutually dependent nature of the world in a timely manner is an important objective for the economy.

At an absolute minimum, there should be no overlapping and competing jurisdictions among the patchwork of agencies. Both regulators and regulated will benefit from clear jurisdictional lines. The financial markets will always stay ahead of regulators, particularly regulators who wield static rules.

We need a regulatory agency with a broader mandate around systemic risk -- one driven by specific objectives governed by principles, not rules.

And so I come back once again to the concept of risk: as we build a uniquely American model for the regulation of financial services industry, we must take account of risk -- its dangers if unchecked and unmeasured, as in the OTC derivatives markets, and its power for good in the daring of entrepreneurs. As I said, strict implementation of the Geithner plan for derivatives will be a positive enduring legacy for our markets.

Third, I want to issue a note of caution about new efforts to regulate governance of public companies. While we seek to improve corporate governance after scandals that have rightly shocked shareholders and the public, we must equally take care that we do not over-regulate public companies. Again, this is about risk. As we look at proposals to reform corporate governance, I want to issue a plea that we keep the concept of risk management at the forefront of our deliberations.

Shareholders, of course, are the owners of public companies. But our system wisely delegates broad powers to the board of directors to decide what is in the best long-term institutional interests of the company -- in short, where to deploy its capital.

If public companies are run like New England town meetings, that capital simply can't be deployed effectively. This is why we have laws that limit corporate liability, because we want to give boards and managers the freedom to take risks they believe are in the best interests of the business. I'm starting to become concerned that the balance is shifting towards too much regulation.

Once this begins with public companies, there is a danger that we could then harm the venture capital system that often gives successful companies their first real infusions of capital for growth.

This is, to use a farming expression, eating your seed corn. It's time to have a discussion about the benefits of the American corporate governance system. If we want to get the economic growth, returns on investment, and jobs that will lead economic recovery, we have to help nurture the growth of companies who end up wanting to list on NASDAQ. Those shoots from the seed corn are not growing as well as they should right now. If we move towards more regulation of how public companies govern themselves and make it more difficult for them to take risks, raise capital, there will be a price to pay.

That's not just bad for NASDAQ and other exchanges. It's bad for the country. Consider biotech companies, for instance: think of the cures that might never be found if companies are forced to scale back their risk-taking because of too-strict rules about how they may deploy capital or if we get the balance wrong between boards and shareholders.

So I believe we must be cautious and deliberate in this area. Boards deserve flexibility to organize their affairs in the manner best for them. If shareholders disagree

with the approach a particular board takes, they will vote with their shares and transfer capital to other companies with a more comfortable risk profile.

Each of these three weigh stations on the roadmap -- OTC derivatives reform, reform of financial system regulation, and corporate governance -- really come down to an understanding of the nature of risk. We need to remember that risk is the foundation of an entrepreneurial economy.

It's what drives capitalism -- and innovative corporations like those that list on NASDAQ. But we must equally understand the threat that excessive and unregulated risk poses to our economy and our economic future. We saw that last October and must never repeat that experience.

These three areas I've identified are important in themselves. But it's not enough to pick and choose; we have to get each one right if we are to encourage the spirit of entrepreneurship and zest for appropriate risk-taking that distinguishes America among the economies of the world.

That *Economist* article I cited earlier included this: "American citizens have an unusual belief that, for all their recent travails, their fate still lies in their own hands. They are comfortable with the risk-taking that is at the heart of entrepreneurialism."

That's still true.

The worst of the storm may be over. It is like a Monday morning for the markets and policy-makers. We have a new Administration, new thinking and new ways of doing business. The time has come for best practices and a comprehensive program of re-regulation that protects investors from unnecessary risk while encouraging the kinds of beneficial risks that entrepreneurs take every day.

Free markets and capitalism are not dead. This economy is resilient. It will come back -- as it always has. And that resurgence will rise from America's tremendous entrepreneurial spirit combined with the world's best capital markets -- the crucible of our free enterprise system. We can't go back to a model of managerial capitalism; our best future lies in taking the steps necessary to preserve entrepreneurship as the foundation of our economy.

Preserve entrepreneurs' ability to take risks, and reduce unnecessary and avoidable risk in the financial sector: that's the recipe for economic recovery.

Thank you very much. I'd be happy to take your questions.