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THE NATIONAL MARKET SYSTEM: AN UPDATE

An Address By

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INTRODUCTION

I AM PLEASED TO HAVE THIS OPPORTUNITY TO ADDRESS THE NATIONAL SECURITY TRADERS ASSOCIATION ON THE OCCASION OF ITS 47TH ANNUAL CONVENTION AND TO RECOGNIZE THE SIGNIFICANT ROLE WHICH THE MEMBERS OF YOUR ORGANIZATION PLAY IN THE EFFECTIVE FUNCTIONING OF THE SECURITIES MARKETS. AS YOU ARE ALL AWARE, THE CAPITAL MARKETS IN THE UNITED STATES ARE PERCEIVED UNIVERSALLY AS THE FINEST IN THE WORLD -- THE FAIREST, THE MOST OPEN, AND THE MOST EFFICIENT. THE CONTRIBUTION WHICH EACH OF YOU MAKES IN HELPING TO PROVIDE LIQUIDITY TO THE SHAREHOLDERS OF THOUSANDS OF COMPANIES WHICH, OVER THE YEARS, HAVE ACHIEVED PUBLIC OWNERSHIP IS A MOST IMPORTANT FACTOR IN ENSURING THE CONTINUED VITALITY AND STRENGTH OF THOSE MARKETS, AND ONE OF WHICH THIS NATION IS JUSTIFIABLY PROUD.

AT THE SAME TIME, HOWEVER, I WOULD LIKE TO SHARE WITH YOU TODAY SOME THOUGHTS ON THE CHANGING NATURE AND STRUCTURE

OF THE NATION'S SECURITIES MARKETS, AS WELL AS ON THE INCREASING ECONOMIC AND REGULATORY DEMANDS WHICH ARE BEING PLACED ON THEM. I WOULD ALSO LIKE TO STATE MY VIEWS ON WHAT THE SECURITIES INDUSTRY MUST DO TO RESPOND TO THOSE CHALLENGES IN ORDER TO ENSURE THE CONTINUED FAIRNESS, EFFICIENCY, AND PREEMINENCE OF OUR SECURITIES MARKETS.

AS YOU ARE WELL AWARE, THE PAST DECADE WAS A PERIOD OF SIGNIFICANT CHANGE FOR THE SECURITIES INDUSTRY. DURING THAT TIME, THE CAPITAL MARKETS WERE SUBJECTED TO UNPRECEDENTED STRESS. INFLATION, THE EMERGENCE OF THE ENERGY CRISIS, THE ELIMINATION OF FIXED COMMISSION RATES FOR SECURITIES TRANSACTIONS, AND UNPRECEDENTED VOLUME ARE EXAMPLES WHICH QUICKLY COME TO MIND. NEW INVESTMENT VEHICLES WERE INTRODUCED -- STANDARDIZED OPTIONS TRADING AND FINANCIAL FUTURES -- AND THE VOLUME IN THOSE INSTRUMENTS, AS WELL AS IN TRADITIONAL INVESTMENT VEHICLES SUCH AS EQUITIES, VIRTUALLY EXPLODED. ORDER HANDLING AND CLEARANCE FACILITIES -- BOTH

WITHIN INDIVIDUAL FIRMS, AND AT THE EXCHANGES AND IN THE OVER-THE-COUNTER MARKETS -- WERE SUBSTANTIALLY UPGRADED. AS A RESULT, THE INDUSTRY, WHICH IN 1970 WAS UNABLE TO HANDLE EVEN THE VOLUME REFLECTED IN 10 MILLION SHARE DAYS ON THE NEW YORK STOCK EXCHANGE WITHOUT OPERATIONAL CHAOS, HAS IN 1979 AND 1980 BEEN ABLE TO HANDLE SUSTAINED VOLUME CHARACTERIZED BY AVERAGE NYSE TRADING OF 35-40 MILLION SHARES PER DAY -- AS WELL AS BURSTS OF SIGNIFICANTLY HIGHER VOLUME -- WITH RELATIVELY FEW OPERATIONAL PROBLEMS.

DURING THE 1970's, ONE OF THE COMMISSION'S HIGHEST PRIORITIES WAS TO ENSURE THE CONTINUED FAIRNESS AND ORDERLINESS OF THIS NATION'S SECURITIES MARKETS, WHILE AT THE SAME TIME FOSTERING INCREASED COMPETITION AND EFFICIENCY THROUGH FACILITATING THE DEVELOPMENT OF A NATIONAL MARKET SYSTEM. THE MANDATE FOR A NATIONAL MARKET SYSTEM IS, AS YOU ALL KNOW, EMBODIED IN THE SECURITIES ACTS AMENDMENTS OF 1975. THAT LEGISLATION, IN TURN, WAS THE CONSEQUENCE OF SIGNIFICANT CHANGES WHICH OCCURRED IN OUR SECURITIES MARKETS DURING THE

LATE 1960'S AND EARLY 1970'S. THOSE CHANGES INCLUDED THE INCREASING ROLE OF INSTITUTIONAL INVESTORS IN THE MARKET; THE ANOMALIES INHERENT IN A FIXED COMMISSION RATE SYSTEM; THE FRAGMENTATION OF THE MARKET; AND THE "BACK-OFFICE" CRISIS IN WHICH NUMEROUS BROKERAGE FIRMS FAILED DUE TO THEIR INABILITY TO WITHSTAND THE FLOOD OF PAPERWORK GENERATED BY RAPIDLY EXPANDING TRADING VOLUME.

IN VIEW OF THESE PROBLEMS, CONGRESS DIRECTED THE SECURITIES AND EXCHANGE COMMISSION TO BECOME MORE ACTIVELY INVOLVED IN MARKET STRUCTURE DEVELOPMENTS BY USING ITS AUTHORITY UNDER THE EXCHANGE ACT TO FACILITATE THE ESTABLISHMENT OF A NATIONAL MARKET SYSTEM FOR SECURITIES. THE 1975 AMENDMENTS, HOWEVER, NEITHER DEFINED THE TERM "NATIONAL MARKET SYSTEM," NOR MANDATED THE SPECIFIC COMPONENTS OF SUCH A SYSTEM. RATHER, CONGRESS RECOGNIZED THAT THE NATION'S SECURITIES MARKETS WERE ALREADY "THE

FINEST IN THE WORLD," AND -- WHILE IT CONTEMPLATED SIGNIFICANT CHANGES -- IT ALSO WISHED TO ENSURE THAT THE "DELICATE MECHANISMS" ASSOCIATED WITH THE CURRENT CAPITAL-RAISING PROCESS WOULD NOT BE HARMED IN THE EFFORT TO BRING ABOUT THE CHANGES NECESSARY TO ENSURE THAT CONTINUED PREEMINENCE.

ACCORDINGLY, CONGRESS CREATED A STATUTORY SCHEME WHICH ALLOWED THE COMMISSION "MAXIMUM FLEXIBILITY" IN GUIDING THE DEVELOPMENT OF A NATIONAL MARKET SYSTEM, CONSISTENT WITH THE FUNDAMENTAL GOALS OF ENSURING INVESTOR PROTECTION AND FAIR AND ORDERLY MARKETS. TO THAT END, CONGRESS SET FORTH FIVE GENERAL OBJECTIVES FOR A NATIONAL MARKET SYSTEM: (I) THE ECONOMICALLY EFFICIENT EXECUTION OF SECURITIES TRANSACTIONS; (II) FAIR COMPETITION BETWEEN AND AMONG SECURITIES MARKETS AND MARKET PARTICIPANTS; (III) THE COLLECTION AND DISSEMINATION OF INFORMATION WITH RESPECT TO SECURITIES TRANSACTIONS AND QUOTATIONS; (IV) THE EXECUTION OF CUSTOMERS' ORDERS IN THE

BEST MARKET AVAILABLE; AND (V) THE EXECUTION, TO THE EXTENT PRACTICABLE, OF CUSTOMERS' ORDERS WITHOUT THE PARTICIPATION OF A DEALER. IN ADDITION, IN RESPONSE TO THE DISASTEROUS "BACK-OFFICE" EXPERIENCE OF THE THEN RECENT YEARS, CONGRESS DIRECTED THAT THE COMMISSION ALSO FACILITATE THE ESTABLISHMENT OF A NATIONAL SYSTEM FOR THE PROMPT AND ACCURATE CLEARANCE AND SETTLEMENT OF SECURITIES TRANSACTIONS.

ALTHOUGH IT IS DIFFICULT TO DISAGREE WITH THESE GENERAL PRINCIPLES, SHARPLY DIVERGENT VIEWS HAVE BEEN EXPRESSED AS TO HOW THEY SHOULD BE TRANSLATED INTO ACTION, WHILE AT THE SAME TIME MAINTAINING THE INTEGRITY OF THE DELICATE MECHANISMS BY WHICH HUNDREDS OF MILLIONS OF DOLLARS OF SECURITIES IN AMERICAN CORPORATIONS CHANGE HANDS DAILY. AS I HAVE STATED PREVIOUSLY, THE DEVELOPMENT OF THE NATIONAL MARKET SYSTEM MIGHT BE COMPARED TO AN EFFORT TO CHANGE THE WHEELS ON A FAST MOVING, ACCELERATING LOCOMOTIVE, WITHOUT SLOWING IT DOWN OR DERAILING IT. MOREOVER, THE VERY NATURE AND

STRUCTURE OF THE ECONOMIC "LOCOMOTIVE" ITSELF IS LIKEWISE CONSTANTLY CHANGING; SIMPLY PUT, THE SECURITIES MARKETS TODAY ARE NOT THE SAME AS THEY WERE IN 1974. AND, STRIKING THE APPROPRIATE BALANCE BETWEEN PRESERVATION OF A WELL-FUNCTIONING SYSTEM AND PROGRESS TOWARDS WHAT IS HOPED TO BE A BETTER ONE IS NO SIMPLE TASK.

ACCORDINGLY, THE DEVELOPMENT OF A NATIONAL MARKET SYSTEM MUST OF NECESSITY BE VIEWED AS AN EVOLUTIONARY PROCESS AND A COOPERATIVE EFFORT. THE SECURITIES INDUSTRY AND THE SELF-REGULATORY ORGANIZATIONS MUST ASSUME PRIMARY RESPONSIBILITY FOR THE TIMELY DESIGN, DEVELOPMENT, AND IMPLEMENTATION OF THE TECHNICAL COMPONENTS OF THE SYSTEM, WHILE AT THE SAME TIME BOTH ENDEAVORING TO MEET THE INCREASING ECONOMIC AND REGULATORY DEMANDS BEING PLACED ON THE MARKETS AND CONSTANTLY TAILORING AND READJUSTING THE DEVELOPMENTAL PROCESS TO REFLECT AND ACCOMMODATE THOSE SIMILARLY DYNAMIC ENVIRONMENTS.

ON THE OTHER HAND, THE COMMISSION'S ROLE IN THIS CONTINUING PROCESS IS TO SERVE AS AN EFFECTIVE OVERSEER OF THE MARKETS GENERALLY, AS WELL AS TO ACT AS A PROD AND CATALYST IN FACILITATING THE DEVELOPMENT OF A NATIONAL MARKET SYSTEM. AND, WHEN NECESSARY, THE COMMISSION MUST, OF COURSE, BE PREPARED TO TAKE WHATEVER ACTION IS REQUIRED TO ACHIEVE A PARTICULAR REGULATORY GOAL OR TO ELIMINATE UNNECESSARY OR INAPPROPRIATE BARRIERS TO COMPETITION. THE COMMISSION'S ROLE IS NOT -- NOR SHOULD IT BE -- THAT OF SYSTEMS ARCHITECT OR FACILITIES DESIGNER IN THIS SUBTLE AND DYNAMIC PROCESS.

SOME HAVE COMPLAINED, HOWEVER, THAT THE COMMISSION HAS MOVED TOO SLOWLY IN FACILITATING THE TIMELY IMPLEMENTATION OF NEEDED FACILITIES AND IN DEMANDING REGULATORY CHANGES. NEVERTHELESS, WHILE SUCH IMPATIENCE IS UNDERSTANDABLE, FOR THOSE WHO FULLY APPRECIATE THE IMPORTANCE AND COMPLEXITY OF THE UNDERTAKING, A CAUTIOUS AND DELIBERATE APPROACH TO REGULATORY ACTIONS -- WHICH COULD HAVE PROFOUND, AND PERHAPS UNFORESEEN,

CONSEQUENCES TO THE SECURITIES MARKETS -- IS SEEN AS THE ONLY RESPONSIBLE COURSE FOR THE COMMISSION TO FOLLOW, AND ONE WHICH IS FULLY CONSISTENT WITH THE CONGRESSIONAL MANDATE EMBODIED IN THE 1975 AMENDMENTS.

PLACING THE PRESENT IN CONTEXT

INDEED, SIGNIFICANT PROGRESS HAS BEEN MADE SINCE 1975 IN MOVING TOWARD THE TYPE OF MARKET AND REGULATORY ENVIRONMENT WHICH OFFERS THE PROMISE OF ACHIEVING, IN THE NEAR TERM, THE GOALS OF A TRULY NATIONAL MARKET SYSTEM. AS WITH ALL HUMAN PROGRESS, HOWEVER, THERE IS AN UNDERSTANDABLE TENDENCY TO LOSE SIGHT OF JUST HOW FAR WE HAVE COME TO DATE IN OUR NATURAL EAGERNESS FOR ADDITIONAL CHANGE. THUS, I WANT TO PAUSE HERE IN ORDER TO TAKE A BRIEF LOOK BACKWARDS BEFORE SETTING MY SIGHTS ON THE GOALS WHICH STILL LIE AHEAD.

PLACING THE RECENT YEARS IN PERSPECTIVE, THE PICTURE LOOKS LIKE THIS: A CONSOLIDATED TRANSACTION REPORTING SYSTEM

HAS BEEN OPERATIONAL FOR SOME TIME NOW, MAKING AVAILABLE TO BROKERS, DEALERS, AND INVESTORS LAST SALE INFORMATION WITH RESPECT TO ALL TRANSACTIONS IN LISTED SECURITIES, REGARDLESS OF WHETHER THEY ARE EXECUTED ON THE PRIMARY EXCHANGES, THE REGIONAL EXCHANGES, OR IN THE OVER-THE-COUNTER MARKET. AS A PART OF THIS SYSTEM, THE INDUSTRY HAS DEVELOPED A HIGH-SPEED DATA TRANSMISSION LINE WHICH, FOR THE FIRST TIME, ENABLES VENDORS OF MARKET INFORMATION TO SUPPLY DATA WITH RESPECT TO SECURITIES TRADING ON A TIMELY BASIS EVEN WHEN THE TRADITIONAL TICKER NETWORK FALLS BEHIND DUE TO HEAVY VOLUME -- A DEVELOPMENT OF PARTICULARLY SIGNIFICANCE AS TRADING VOLUME HAS INCREASED DRAMATICALLY IN THE LAST TWO YEARS. BUT, AS WE ALL KNOW, EVEN THE TAPE -- THE FIRST AND MOST BASIC OF NATIONAL MARKET SYSTEM BUILDING BLOCKS -- HAS ONLY BEEN A REALITY SINCE 1976, AND IT WAS THE CULMINATION OF AN EFFORT -- PREDATING BY AT LEAST THREE YEARS THE 1975 AMENDMENTS -- LONG IN THE MAKING.

SIMILARLY, A FUNCTIONING CONSOLIDATED QUOTATION SYSTEM, LONG CONSIDERED ANOTHER CORNERSTONE OF THE NATIONAL MARKET SYSTEM, HAS FINALLY BECOME FULLY OPERATIONAL. ALTHOUGH IMPROVEMENTS NEED TO BE MADE IN THE SYSTEM, IT IS CLEAR THAT UP-TO-DATE QUOTATION INFORMATION FROM ALL MARKET CENTERS IS BECOMING AN INTEGRAL PART OF THIS NATION'S SECURITIES MARKETS. YET AGAIN, THE FINAL COMMISSION QUOTE RULE WAS NOT LAID IN PLACE UNTIL 1978, AND THE COMMISSION EVEN NOW CAN BE EXPECTED IN THE NEAR FUTURE TO TEXTURE ITS REGULATORY TREATMENT OF THE VITAL QUOTATION SYSTEM IN RESPONSE TO CHANGING TECHNOLOGIES, ADDITIONAL INITIATIVES LIKE THE ITS AND THE DISPLAY RULES, AND BEHAVIORIAL FEEDBACK FROM MARKET PROFESSIONALS REFLECTING THE EXPERIENCES OF THE PAST TWO YEARS.

SIGNIFICANT PROGRESS HAS ALSO BEEN MADE IN LINKING THE TRADING MARKETS FOR SECURITIES. A NUMBER OF EXCHANGES ARE ALREADY LINKED TOGETHER THROUGH THE INTERMARKET TRADING SYSTEM, OR "ITS," AND THAT SYSTEM NOW PROVIDES A VEHICLE OFFERING

UNIQUE OPPORTUNITIES FOR ENHANCED COMPETITION BETWEEN AND AMONG SECURITIES MARKETS. WHAT'S MORE, THE PARTICIPANTS IN THE SYSTEM EXPECT, IN THE NEAR FUTURE, TO EXPAND THE ITS TO INCLUDE THE AUTOMATED TRADING SYSTEM SPONSORED BY THE CINCINNATI STOCK EXCHANGE, AS WELL AS TO COMMENCE A PILOT LIMIT ORDER INFORMATION SYSTEM, CALLED "LOIS," WHICH WILL PERMIT PROFESSIONALS IN ALL MARKET CENTERS TO OBTAIN INFORMATION WITH RESPECT TO LIMIT ORDERS AWAY FROM THE MARKET AND TO SATISFY THOSE ORDERS QUICKLY AND EFFICIENTLY IN CONNECTION WITH THE EXECUTION OF BLOCK TRANSACTIONS. NEVERTHELESS, AS YOU ALL KNOW, THE ITS, IN THE VIEW OF MOST, HAS YET TO ACHIEVE ITS POTENTIAL, AND IT THUS MUST BE RECOGNIZED AS YET ANOTHER EFFORT WHICH WILL TAKE SOME TIME TO REACH FRUITION. FOR THAT REASON, THE COMMISSION CONTINUES TO BE INVOLVED IN VARIOUS ISSUES SURROUNDING THE ITS AND EXPECTS SIGNIFICANT PROGRESS BEFORE THE SYSTEM'S CURRENT APPROVAL EXPIRES IN 1983.

THE SELF-REGULATORY ORGANIZATIONS HAVE ALSO MOVED TO IMPROVE EXISTING SYSTEMS, AS WELL AS TO DESIGN AND DEVELOP NEW FACILITIES, IN AN EFFORT TO ENHANCE STILL FURTHER TRADING EFFICIENCY AND COMPETITION WITHIN SECURITIES MARKETS. THE COMMISSION HAS APPROVED, ALSO UNTIL 1983, THE OPERATION OF THE NATIONAL SECURITIES TRADING SYSTEM OF THE CINCINNATI STOCK EXCHANGE. THAT SYSTEM REPRESENTS THE FIRST PRACTICAL USE OF A FULLY-AUTOMATED ELECTRONIC TRADING MECHANISM TO EXECUTE RETAIL-SIZED ORDERS. IN ADDITION, SEVERAL OF THE REGIONAL STOCK EXCHANGES HAVE SUCCESSFULLY ATTRACTED ORDER FLOW BY DEVELOPING SYSTEMS WHICH PROVIDE AUTOMATED EXECUTION, ON A DERIVATIVE BASIS, OF AGENCY ORDERS DIRECTED TO THOSE EXCHANGES. SIMILARLY, THE PRIMARY EXCHANGES HAVE IMPLEMENTED INTERNAL ORDER HANDLING SYSTEMS DESIGNED TO INCREASE THE SPEED WITH WHICH ORDERS ARE EXECUTED AND REPORTS OF EXECUTIONS ARE GENERATED. FINALLY, THE NATIONAL ASSOCIATION OF SECURITIES DEALERS HAS EMBARKED ON A \$10 MILLION PROGRAM TO

ENHANCE ITS EXISTING NASDAQ INTER-DEALER QUOTATION SYSTEM TO PERMIT THAT SYSTEM TO BE USED FOR AUTOMATED EXECUTION, AS WELL AS FOR ORDER ROUTING. AGAIN, NONE OF THESE INITIATIVES WAS EASY, AND NONE CAME OVERNIGHT. BUT, EACH REFLECTS -- AND, IN TURN, ITSELF IMPACTS AND CHANGES -- THE NEW ECONOMIC AND REGULATORY ENVIRONMENT WHICH MUST FORM THE FOUNDATION OF YET FURTHER ADVANCEMENTS TO COME.

SINCE THE PASSAGE OF THE 1975 ACTS AMENDMENTS, SIGNIFICANT PROGRESS HAS ALSO BEEN MADE IN ELIMINATING BARRIERS TO COMPETITION BETWEEN THE OVER-THE-COUNTER MARKETS AND THE EXCHANGE MARKETS. SHORTLY AFTER THE ADOPTION OF THE 1975 AMENDMENTS, THE COMMISSION PROMULGATED RULE 19c-1 UNDER THE EXCHANGE ACT WHICH, AS LATER AMENDED, ELIMINATED ALL OFF-BOARD TRADING RESTRICTIONS ON AGENCY TRANSACTIONS (EXCEPT THOSE RELATING TO SO-CALLED "IN-HOUSE" CROSSES). AND, LESS THAN SIX MONTHS AGO, THE COMMISSION CONCLUDED A LENGTHY, TWO-PART PROCEEDING ON OFF-BOARD PRINCIPAL TRANSACTIONS BY ADOPTING

RULE 19c-3, AN EXPERIMENT WHICH ELIMINATES ALL RESTRICTIONS ON UPSTAIRS MARKET MAKING FOR NEWLY-LISTED OR RELISTED SECURITIES.

THE ADOPTION OF RULE 19c-3 IS EXPECTED TO ENHANCE COMPETITION BY PRESERVING OVER-THE-COUNTER MARKET MAKING IN NEWLY-LISTED SECURITIES. MORE IMPORTANTLY, HOWEVER, THE EXPERIMENTAL VALUE OF THE RULE IS THAT IT SHOULD PROVIDE THE INDUSTRY AND THE COMMISSION WITH AN EXCELLENT OPPORTUNITY TO GAIN VALUABLE EXPERIENCE WITH THE DYNAMICS OF COMPETITION BETWEEN SIMULTANEOUS EXCHANGE-ORIENTED AND DEALER-ORIENTED TRADING IN THE SAME SECURITIES. AT THE SAME TIME, OF COURSE, IT WILL ALSO ALLOW THE INDUSTRY AND THE COMMISSION TO BEGIN TO EVALUATE THE ADVERSE CONSEQUENCES WHICH SOME HAVE PREDICTED WILL FLOW FROM SUCH TRADING.

THE COMMISSION ADOPTED RULE 19c-3 WITH A FULL AWARENESS OF THE RISKS INVOLVED, AND DIFFICULT QUESTIONS CLEARLY DO

STILL REMAIN. POTENTIAL PROBLEMS SUCH AS THOSE CREATED BY DISPARITIES IN MARKET MAKER OBLIGATIONS, REPORTING DISCREPANCIES, AND THE INTERNALIZATION PHENOMENON ARE SENSITIVE CONCERNS WHICH I SHARE, WHICH CANNOT RESPONSIBLY BE IGNORED, AND WHICH MUST BE ADDRESSED ON A CONTINUING BASIS. BUT, BY LIMITING THE APPLICABILITY OF THE RULE TO NEWLY-LISTED SECURITIES, THE COMMISSION HAS ENSURED THAT THE LEARNING EXPERIENCE WILL NOT BE AT THE EXPENSE OF RISKING UNNECESSARY, OR PERHAPS IRREVERSIBLE, DISRUPTION OF THE SECURITIES MARKETS.

SIMILARLY, THE COMMISSION HAS BEEN CAREFUL TO NOTE THE LIMITATIONS OF THE LEARNING WHICH IT EXPECTS FROM THE 19c-3 EXPERIMENT. QUESTIONS HAVE BEEN RAISED CONCERNING THE VALIDITY OF THE EXPERIENCE GIVEN THE FACT THAT MARKET PARTICIPANTS WILL BE ON THEIR BEST BEHAVIOR DURING THE COURSE OF THE EXPERIMENT. AND, I SHARE THE VIEW THAT, EVEN IF THE

EXPERIMENT WITH 19c-3 SECURITIES IS A VALID ONE, CONCLUSIONS REACHED ABOUT THE INDUSTRY'S EXPERIENCE THERE SHOULD NOT -- AND CANNOT -- BE EXTRAPOLATED TO PREDICT WHAT THE RESULTS MIGHT BE IF THE REMAINING OFF-BOARD TRADING RESTRICTIONS WERE REMOVED GENERALLY. NEVERTHELESS, WHILE THE 19c-3 EXPERIENCE WILL HAVE ITS RISKS AND LIMITATIONS, IT WILL ALSO PROVIDE THE INDUSTRY AND THE COMMISSION WITH THE BEST INPUT POSSIBLE UNDER THE CIRCUMSTANCES INTO THE VALUE AND EFFECTS OF SIMULTANEOUS TRADING IN EXCHANGE-ORIENTED AND DEALER-ORIENTED MARKETS.

IT SHOULD ALSO BE NOTED, HOWEVER, THAT THE 19c-3 INITIATIVE WILL YIELD ITS FULL POTENTIAL ONLY AFTER SUFFICIENT TIME HAS PAST. THE EXPERIENCE WILL BE A DYNAMIC ONE IN WHICH ECONOMIC FORCES AND BEHAVIORIAL CHARACTERISTICS ARE INFLUENCED BY -- AND, IN TURN, INFLUENCE -- THE MARKETS.

AND, AS I WILL DISCUSS LATER, A FULLY-AUTOMATED LINKAGE BETWEEN THE NASDAQ AND THE ITS IS ESSENTIAL TO THE EXPERIMENT TO MAKE IT MOST MEANINGFUL AND PRODUCTIVE.

THUS, AS WITH THE OTHER INITIATIVES WHICH I HAVE JUST OUTLINED, THE ISSUES OF OFF-BOARD TRADING RESTRICTIONS AND THEIR POSSIBLE ELIMINATION THROUGH REGULATORY ACTION HAVE NOT ADMITTED OF SIMPLE -- OR QUICK -- SOLUTIONS. YET, HERE TOO, THE FUTURE WILL BE SHAPED BY THE LEARNING AND EXPERIENCES OF THE PRESENT.

FINALLY, AS MY BRIEF REVIEW APTLY ILLUSTRATES, JUST AS THE PROCESS BY WHICH A NATIONAL MARKET SYSTEM DEVELOPS MUST BE AN EVOLUTIONARY ONE, SO TOO THE VERY CONCEPT OF A NATIONAL MARKET SYSTEM IS DYNAMIC. THESE INNOVATIONS DO, HOWEVER, REPRESENT LONG STRIDES DOWN THE ROAD TOWARD GIVING LIFE TO THAT CONCEPT. AND, THE ACHIEVEMENT OF THIS PROGRESS HAS NOT JEOPARDIZED THE VITAL EFFICIENCY, DEPTH, AND LIQUIDITY OF OUR MARKETS.

AT THE SAME TIME, HOWEVER, SIGNIFICANT ADDITIONAL PROGRESS MUST BE MADE -- AND MADE AS RAPIDLY AS POSSIBLE WITHOUT JEOPARDIZING THE CONTINUING HEALTH AND VITALITY OF THE CURRENT SECURITIES MARKETS. INDEED, SIGNIFICANT ADVANCEMENTS MUST BE MADE SIMPLY TO ENSURE THE CONTINUED EFFICIENT AND EFFECTIVE FUNCTIONING OF OUR MARKETS IN LIGHT OF CHANGING ECONOMIC AND REGULATORY CIRCUMSTANCES.

THE NEXT STEPS

VIEWED IN THIS CONTEXT, IT IS CLEAR THAT, WHILE SOME OF THE IMPORTANT GOALS OF A NATIONAL MARKET SYSTEM HAVE BEEN ADDRESSED SUCCESSFULLY, A NUMBER OF MAJOR, NEAR-TERM OBJECTIVES STILL REMAIN UNFULFILLED -- AND, AS TO AT LEAST SOME OF THESE, IMPATIENCE AT THE RATE OF PROGRESS IS JUSTIFIED. ALTHOUGH AN INITIAL MARKET LINKAGE HAS BEEN ESTABLISHED AMONG SOME MARKETS, THE COMPREHENSIVE LINKAGE OF ALL MARKETS CONTEMPLATED IN A FULLY OPERATIONAL NATIONAL MARKET SYSTEM REMAINS TO BE ACCOMPLISHED. MOREOVER, PROBLEMS STILL REMAIN

WITH RESPECT TO THE TIMELY COLLECTION AND DISSEMINATION OF QUOTATIONS. SIMILARLY, WHILE THE MARKET CENTERS HAVE MADE PROGRESS IN FORMULATING PROCEDURES AND MECHANISMS TO PROVIDE INTERMARKET PRICE PROTECTION FOR PUBLIC LIMIT ORDERS IN CONNECTION WITH BLOCK TRANSACTIONS, THEY HAVE YET TO IMPLEMENT SUCH A SYSTEM. SOME PROGRESS HAS ALSO BEEN MADE IN PROVIDING INTERMARKET PRICE PROTECTION FOR ALL DISPLAYED QUOTATIONS, BUT MUCH REMAINS TO BE DONE. FINALLY, ACTION STILL MUST BE TAKEN TO EXTEND THE BENEFITS OF AUCTION-TYPE TRADING TO ALL SECURITIES WITH APPROPRIATE INVESTMENT AND TRADING CHARACTERISTICS -- REGARDLESS OF WHETHER THEY HAPPEN TO BE LISTED ON A NATIONAL SECURITIES EXCHANGE OR TRADED OVER-THE-COUNTER.

THE IMMEDIATE CHALLENGE IS, THEREFORE, TO BUILD ON THE FRAMEWORK ESTABLISHED THUS FAR, AND FOR THE INDUSTRY AND THE COMMISSION TO MOVE PROMPTLY TO ADDRESS OUTSTANDING ECONOMIC AND REGULATORY ISSUES AND COMPLETE NEEDED SYSTEMS

DEVELOPMENT. IN THE NEAR TERM, I EXPECT THE INDUSTRY AND THE COMMISSION TO DEVOTE SIGNIFICANT ATTENTION TO FOUR MAJOR AREAS:

- (1) MAKING IMPROVEMENTS AND REFINEMENTS IN MARKET INFORMATION AND LINKAGE SYSTEMS;
- (2) ENHANCING PRICE PROTECTION -- BOTH FOR LIMIT ORDERS AND FOR ALL QUOTATIONS;
- (3) ACHIEVING LINKAGE OF MARKET CENTERS AND NECESSARY REGULATORY CHANGES TO PERMIT FAIR COMPETITION BETWEEN AND AMONG DIFFERENT MARKETS AND DIFFERENT TYPES OF TRADING MARKETS; AND
- (4) PROCEEDING WITH THE DESIGNATION OF "QUALIFIED SECURITIES."

IN EACH OF THESE AREAS, SOME PROGRESS IS BEING MADE. BUT MUCH REMAINS TO BE DONE IF THE FRUITS OF PRIOR ADVANCEMENTS ARE NOT TO BE LOST. AND, IN THE ABSENCE OF SIGNIFICANT, NEAR-TERM PROGRESS BY THE INDUSTRY IN MEETING THESE CHALLENGES, THE COMMISSION, OF COURSE, STANDS READY TO TAKE

WHATEVER STEPS NECESSARY TO FULFILL ITS CONGRESSIONAL MANDATE TO FACILITATE THE DEVELOPMENT OF A NATIONAL MARKET SYSTEM. I WILL NOW FOCUS ON EACH OF THESE AREAS IN TURN.

MARKET INFORMATION AND LINKAGE SYSTEMS

THE AVAILABILITY OF ACCURATE, RELIABLE, AND TIMELY INFORMATION WITH RESPECT TO TRANSACTIONS AND QUOTATIONS IS FUNDAMENTAL TO ACHIEVING BEST EXECUTION OF CUSTOMERS' ORDERS AND ENSURING FAIR COMPETITION BETWEEN AND AMONG MARKET CENTERS AS CONTEMPLATED BY THE 1975 AMENDMENTS. SEVERAL ASPECTS OF EXISTING MARKET INFORMATION SYSTEMS ARE OF CONCERN.

FIRST, WITH RESPECT TO COLLECTION PROCEDURES ON THE VARIOUS EXCHANGES -- BOTH LAST SALE AND QUOTATION -- IMPROVEMENTS CAN BE MADE SO THAT TRADES ARE REPORTED ON THE CONSOLIDATED TAPE WITHIN A FEW SECONDS OF EXECUTION AND SO THAT CURRENT QUOTATION INFORMATION IS CONTINUOUSLY MADE AVAILABLE TO BROKERS, DEALERS, AND INVESTORS. I RECOGNIZE

THAT INSTANTANEOUS REPORTING UNDER ALL TRADING CIRCUMSTANCES
MAY NOT BE POSSIBLE -- PARTICULARLY IN ACTIVE MARKET SITUATIONS.
BUT, NOT ALL MARKETS ARE SO ACTIVE THAT THEY CANNOT STRIVE
TOWARD MAKING CURRENT INFORMATION THE RULE RATHER THAN THE
EXCEPTION, AND RECENT ADVANCES IN TECHNOLOGY SHOULD HELP TO
REMOVE BARRIERS OF THAT NATURE WHICH MAY HAVE SERVED TO
BLOCK SUCH EFFORTS IN THE PAST.

THE PRIORITY FOR TIMELY REPORTING OF MARKET INFORMATION
FROM EXCHANGE FLOORS MUST BE UPGRADED. IN THIS REGARD, THE
COMPREHENSIVE FACILITIES UPGRADE UNDERWAY AT THE NEW YORK
STOCK EXCHANGE IS PARTICULARLY IMPORTANT. TOGETHER WITH THE
NASDAQ UPGRADE CURRENTLY BEING UNDERTAKEN BY THE NASD, THIS
NYSE PROGRAM WILL ENABLE THE MARKETS TO RESPOND MORE EFFECTIVELY
TO THE COMMUNICATIONS DEMANDS OF THE EMERGING NATIONAL MARKET
SYSTEM, INCLUDING THE NEED FOR ENHANCED DATA RETRIEVAL CAPACITY
FOR BOTH CLEARANCE AND SETTLEMENT, AS WELL AS SURVEILLANCE,
PURPOSES.

AS WITH ALL FACILITIES UPGRADES, HOWEVER, ENHANCED INPUT FACILITIES, OF COURSE, ONLY ADDRESS ONE SIDE OF THE COIN. THE EXCHANGES MUST ALSO COMMIT SUFFICIENT FLOOR REPORTERS AND SURVEILLANCE RESOURCES TO ENSURE THAT INVESTORS AND BROKERS "UPSTAIRS" HAVE THE TYPE AND QUALITY OF MARKET INFORMATION NECESSARY FOR INFORMED EXECUTION AND ORDER-ROUTING DECISIONS.

THERE ARE ALSO CONCERNS WITH RESPECT TO QUOTATION INFORMATION. AS A RESULT OF THE INCREASED VOLUME OF QUOTE TRAFFIC SINCE ADOPTION OF THE COMMISSION'S QUOTE RULE, AND THE PRACTICE OF EXCHANGES NOT MAKING QUOTATIONS AVAILABLE PRIOR TO THE OPENING, THE CONSOLIDATED QUOTATION SYSTEM IS EXPERIENCING DELAYS (15-30 SECONDS) IN DISSEMINATING QUOTE INFORMATION TO VENDORS DURING THE FIRST 15 MINUTES OF TRADING. THESE DELAYS MUST BE ELIMINATED IN THE NEAR FUTURE. I HAVE INSTRUCTED THE STAFF TO MEET WITH THE INTERESTED PARTIES -- THE EXCHANGES, SIAC, AND THE VENDORS -- TO PROMPTLY ADDRESS

THOSE IMPROVEMENTS TO THE CONSOLIDATED QUOTATION SYSTEM AND CHANGES IN THE TIMING OF QUOTATION AVAILABILITY NEEDED TO ELIMINATE THESE DELAYS. SIMILARLY, FAILURES BY THE EXCHANGES TO ENFORCE THE COMMISSION'S QUOTE RULE HAVE NOT GONE UNNOTICED AND ALREADY HAVE BEEN THE SUBJECT OF ONE ENFORCEMENT PROCEEDING. NOR HAS THE USE OF AUTOQUOTE BY SOME REGIONAL SPECIALISTS AND THIRD-MARKET MARKET MAKERS PROVED ENTIRELY SATISFACTORY -- A PROBLEM WHICH IS EXACERBATED BY THE COMMISSION'S RECENT ADOPTION OF THE DISPLAY RULES.

IMPROVEMENTS ARE ALSO NEEDED IN THE OPERATION OF THE ITS. THE AVERAGE LENGTH OF TIME IT TAKES TO SEND AN ORDER THROUGH THE ITS AND TO RECEIVE A RESPONSE -- PARTICULARLY IN THE CASE OF ORDERS SENT TO AND FROM THE NYSE -- CONTINUES TO CREATE SUBSTANTIAL DISINCENTIVES TO USE OF THE SYSTEM. TO THE EXTENT THAT THIS IS TRUE DURING PERIODS OF ACTIVE TRADING, OTHER FACTORS -- SUCH AS THE EXISTENCE OF NARROWER SPREADS, AS WELL AS THE SIMPLE PRESS OF BUSINESS ITSELF -- MAY ALSO

ACCOUNT FOR FAILURES TO USE ITS AND RESULTING TRADE THROUGHES. I UNDERSTAND THAT A PART OF THE FACILITIES UPGRADE OF THE NYSE CURRENTLY UNDERWAY WILL IMPROVE ITS INPUT AND RESPONSE PROCEDURES AT THE NYSE. SIMILARLY, THE TRADE THROUGH PHENOMENON IS ONE WHICH CALLS FOR CONTINUED ATTENTION AND DISCIPLINE.

FINALLY, THE ITS PARTICIPANTS MUST ACTIVELY FOCUS ON WHAT OTHER IMPROVEMENTS SHOULD BE MADE TO THE SYSTEM TO INCREASE ITS EFFICIENCY AND USEFULNESS. IF THE ITS IS TO BE AN ENDURING NATIONAL MARKET SYSTEM LINKAGE FACILITY, THE ITS PARTICIPANTS HAVE TO RECOGNIZE THAT THE SYSTEM MUST BE CONTINUALLY ENHANCED AND IMPROVED OR IT TOO WILL BECOME OUTMODED AND OBSOLETE -- AND, MORE IMPORTANTLY, WILL NOT PROVIDE THE OPPORTUNITY FOR FAIR COMPETITION WHICH LINKAGE MUST SATISFY.

PRICE PROTECTION

I WOULD LIKE NOW TO TURN TO THE SUBJECT OF PRICE PROTECTION. ACHIEVEMENT OF INTERMARKET PRICE PROTECTION FOR LIMIT ORDERS -- AND EVENTUALLY FOR ALL ORDERS -- IS ANOTHER IMPORTANT NEAR-TERM GOAL OF THE COMMISSION. SUCH PROTECTION, WHEN ACHIEVED, WILL NOT ONLY BENEFIT PUBLIC INVESTORS BY INCREASING OPPORTUNITIES FOR BEST EXECUTION OF THEIR ORDERS, BUT IT ALSO MAY WELL INCREASE THE POTENTIAL FOR COMPETITION BETWEEN AND AMONG MARKETS.

LIKE THE OTHER OBJECTIVES OF A NATIONAL MARKET SYSTEM, THE CONCEPT OF INTERMARKET PRICE PROTECTION IS NOT NEW; AS EARLY AS 1973, THE COMMISSION DESCRIBED THE SO-CALLED "AUCTION TRADING" RULE AS ONE OF THE IMPORTANT TRADING PRINCIPLES GOVERNING THE OPERATION OF A NATIONAL MARKET SYSTEM. THE AUCTION TRADING RULE WOULD HAVE REQUIRED SATISFACTION OF ALL OUTSTANDING ORDERS PRIOR TO EXECUTION OF A TRANSACTION ANYWHERE ELSE IN THE SYSTEM AT AN INFERIOR PRICE. AFTER CONSIDERING,

AND RECEIVING COMMENT ON, SEVERAL POSSIBLE FACILITIES APPROACHES TO THE INTERMARKET PROTECTION OF ALL ORDERS, THE COMMISSION IN EARLY 1979 PUBLISHED FOR COMMENT A PROPOSED RULE REQUIRING PRICE PROTECTION ONLY FOR PUBLIC LIMIT ORDERS AND, IN THAT RELEASE, REQUESTED THE SELF-REGULATORY ORGANIZATIONS TO HAVE SUCH A PILOT PRICE PROTECTION SYSTEM IN PLACE BY THE END OF CALENDAR 1980.

IN RESPONSE TO THIS EFFORT, THE COMMISSION HAS NOW BEEN INFORMED THAT THE ITS PARTICIPANTS ARE PLANNING TO IMPLEMENT LOIS, ON A PILOT BASIS, IN THE VERY NEAR FUTURE. LOIS IS DESIGNED TO PROVIDE, ON THE FLOOR OF EACH ITS PARTICIPANT, A DISPLAY OF LIMIT ORDERS ENTERED FROM ALL PARTICIPANT EXCHANGES AT VARIOUS PRICE LEVELS. ACCORDINGLY, LOIS, IN COMBINATION WITH THE ITS, IS INTENDED TO PROVIDE A MEANINGFUL MECHANISM THROUGH WHICH A BROKER-DEALER CONTEMPLATING EXECUTING A BLOCK TRANSACTION "AWAY FROM THE MARKET" MAY IDENTIFY AND PROTECT ALL LIMIT ORDERS DISPLAYED IN LOIS.

THE LOIS PILOT WAS, WE UNDERSTOOD, SCHEDULED TO COMMENCE ON SEPTEMBER 30, 1980. IMPLEMENTATION OF THE SYSTEM HAS, HOWEVER, BEEN DELAYED AS A RESULT OF CONCERNS RAISED BY CERTAIN OF THE REGIONAL EXCHANGES. THEY APPARENTLY ARE CONCERNED THAT LOIS, AS CURRENTLY STRUCTURED, MAY BE UNWORKABLE BECAUSE SPECIALISTS MUST CONTINUOUSLY UPDATE THEIR LIMIT ORDER DISPLAYS, AND BECAUSE BLOCK TRADERS WOULD BE REQUIRED TO MANUALLY SEND UP TO FIVE ITS COMMITMENTS TO TRADE IN CONNECTION WITH EVERY LOIS BLOCK EXECUTION.

A MANUALLY-INTENSIVE SYSTEM MAY INDEED WORK FOR A PILOT WITH A LIMITED NUMBER OF SECURITIES. I DO, HOWEVER, SHARE THE CONCERNS RAISED BY THE REGIONALS THAT THE SYSTEM AS PROPOSED MAY BE TOO CUMBERSOME TO PROVIDE ADEQUATE INTERMARKET PRICE PROTECTION FOR A LARGE NUMBER OF SECURITIES WITH ACTIVE MARKETS. THE ITS PARTICIPANTS MUST PROMPTLY MAKE WHATEVER MODIFICATIONS TO LOIS ARE NECESSARY TO ENSURE THAT

FIRMS WHO ARE REQUIRED TO PROTECT LOIS-DISPLAYED ORDERS IN CONNECTION WITH THEIR BLOCK TRADES, AS WELL AS FOR EXCHANGE SPECIALISTS WHO HAVE THE RESPONSIBILITY OF KEEPING THE LIMIT ORDER FILE UP-TO-DATE. WHEN THESE ENHANCEMENTS ARE MADE, THE LOIS FACILITY, AS EXPANDED TO INCLUDE ALL MARKET CENTERS AND ALL SECURITIES, HAS THE POTENTIAL TO BE AN IMPORTANT TOOL IN PROVIDING NATIONWIDE PRICE PROTECTION FOR PUBLIC LIMIT ORDERS.

WITH RESPECT TO ANOTHER ASPECT OF THE PRICE PROTECTION QUESTION -- AND ONE WHICH HAS BEEN OF GREAT INTEREST TO THE REGIONAL EXCHANGES -- I AM PLEASED TO NOTE THAT SIGNIFICANT EFFORTS ARE ALSO BEING EXPENDED TO ADDRESS, AT THE INDUSTRY LEVEL, THE NEED TO ULTIMATELY ACHIEVE INTERMARKET PRICE PROTECTION FOR ALL BUYING AND SELLING INTEREST DISPLAYED AS PART OF THE CONSOLIDATED QUOTATION SYSTEM. AS I MENTIONED EARLIER, THE CONTINUING OCCURRENCE OF "TRADE THROUGH" IN THE ITS -- WHEREBY BROKERS OR DEALERS IN ONE MARKET IGNORE

BETTER DISPLAYED QUOTATIONS FROM OTHER MARKETS AND EXECUTE TRANSACTIONS AT INFERIOR PRICES -- IS INCONSISTENT WITH THE FUNDAMENTAL PRICE PROTECTION CONCEPT OF A NATIONAL MARKET SYSTEM. I RECOGNIZE THAT IT MAY NOT BE POSSIBLE TO ABSOLUTELY PRECLUDE TRADE THROUGHS -- IN EXTREMELY ACTIVE MARKETS, INADVERTENT TRADE THROUGHS MAY BE UNAVOIDABLE. IN SOME CIRCUMSTANCES, USE OF AUTOQUOTE MAY ALSO PROVIDE THE APPEARANCE OF A TRADE THROUGH WHERE NONE IN FACT EXISTS. NEVERTHELESS, EXCEPT IN THE MOST UNUSUAL SITUATIONS, TRADE THROUGHS CAN, AND MUST, BE DEALT WITH, AND, WHEN TRADE THROUGHS DO OCCUR, ADEQUATE REMEDIES MUST BE AVAILABLE FOR PERSONS ADVERSELY AFFECTED.

THE ITS OPERATING COMMITTEE HAS CREATED A RULES SUBCOMMITTEE AUTHORIZED TO DRAFT RULES, TO BE ADOPTED BY EACH ITS PARTICIPANT, ADDRESSING THE TRADE THROUGH PROBLEM. THE COMMISSION STAFF HAS ATTENDED MEETINGS OF THIS SUBCOMMITTEE AND HAS BEEN ENCOURAGED BY THE CONSTRUCTIVE ATTITUDE OF THE MEMBERS AND THE INNOVATIVE APPROACHES TO THE PROBLEM

BEING CONSIDERED. I TOO AM ENCOURAGED BY THESE DEVELOPMENTS AND URGE THE ITS PARTICIPANTS TO RESOLVE THE TRADE THROUGH ISSUE AMONG THEMSELVES AS SOON AS POSSIBLE.

FAIR COMPETITION

ONE IMPORTANT GOAL OF THE NATIONAL MARKET SYSTEM IS FAIR COMPETITION BETWEEN AND AMONG MARKETS AND MARKET MAKERS IN LISTED AND UNLISTED STOCKS. CRUCIAL TO ACHIEVING SUCH A GOAL ARE LINKAGE FACILITIES AND AN APPROPRIATE REGULATORY ENVIRONMENT TO ENSURE A FAIR FIELD OF COMPETITION.

IMPLEMENTATION OF COMMUNICATIONS AND DATA PROCESSING FACILITIES WHICH LINK ALL MARKET CENTERS AND PERMIT ORDERS TO BE TRANSMITTED PROMPTLY AND EFFICIENTLY FROM ONE MARKET CENTER TO ANOTHER IS ONE OBVIOUS COMPONENT OF ACHIEVING THE OBJECTIVE. TO DATE, HOWEVER, THE ONLY MARKET LINKAGE SYSTEM CURRENTLY IN PLACE, THE ITS, LINKS ONLY EXCHANGE MARKETS. AND, WHILE THE ENHANCED NASDAQ SYSTEM WILL PROVIDE LINKAGE AMONG OTC

MARKET MAKERS, FIRMS MAKING MARKETS OVER-THE-COUNTER IN LISTED SECURITIES WILL STILL BE UNABLE TO QUICKLY AND EFFICIENTLY SEND ORDERS TO EXCHANGE MARKETS FOR EXECUTION OR TO RECEIVE ORDER FLOW FROM EXCHANGE MARKETS WHEN THEIR MARKETS OR QUOTATIONS ARE SUPERIOR. MOREOVER, TO THE EXTENT THAT THE ITS BECOMES THE PRIMARY VEHICLE FOR PROVIDING INTERMARKET PRICE PROTECTION, LIMIT ORDERS AND QUOTATIONS IN THE THIRD MARKET WILL NOT RECEIVE PROTECTION IN CONNECTION WITH EXCHANGE TRANSACTIONS, AND LIMIT ORDERS AND QUOTATIONS ON EXCHANGES WILL NOT BE PROTECTED AGAINST THIRD MARKET EXECUTIONS.

THE NEED FOR AN IMMEDIATE LINK BETWEEN EXCHANGES AND THE THIRD MARKET THROUGH THE ITS IS URGENT. IN ORDER TO MAXIMIZE THE USEFULNESS OF THE EXPERIENCE TO BE DERIVED FROM RULE 19c-3 FOR FUTURE INDUSTRY AND REGULATORY DETERMINATIONS, IT IS ESSENTIAL -- AS STRESSED BY THE COMMISSION NOT ONLY IN ITS RECENT 19c-3 RELEASE, BUT ALSO IN ITS LATEST ORDER EXTENDING APPROVAL OF THE ITS FOR THREE YEARS -- THAT AN EFFICIENT,

AUTOMATED LINKAGE BE IMPLEMENTED BETWEEN THE ITS AND THE ENHANCED NASDAQ SYSTEM AS SOON AS POSSIBLE TO PERMIT THE INTERACTION OF UPSTAIRS MARKET MAKERS WITH EXCHANGE-BASED TRADERS. MOREOVER, THE TRADING ACTIVITY WHICH HAS RESULTED IN 19C-3 SECURITIES REQUIRES THAT APPROPRIATE MECHANISMS TO ACHIEVE EFFICIENT ORDER INTERACTION MUST PROMPTLY BE PUT IN PLACE -- NOT ONLY TO ENSURE PRICE PROTECTION FOR PUBLIC LIMIT ORDERS, BUT ALSO TO REDUCE THE POTENTIAL FOR PRICING INEFFICIENCIES, UNFAIR COMPETITION, AND OVERREACHING AS THE RESULT OF TRADING IN A LISTED SECURITY TAKING PLACE IN MULTIPLE EXCHANGE AND OFF-BOARD LOCATIONS. FINALLY, UPON ESTABLISHMENT OF THAT INITIAL LINKAGE, IMMEDIATE ATTENTION WILL ALSO NEED TO BE GIVEN TO ANY RULEMAKING NECESSARY TO ENSURE THAT THERE IS THE OPPORTUNITY FOR FAIR COMPETITION.

TO DATE, HOWEVER, WHILE THE NASD HAS EXPRESSED A WILLINGNESS TO PROCEED PROMPTLY WITH ITS PORTION OF AN AUTOMATED ITS/NASDAQ INTERFACE, THE EXCHANGE COMMUNITY HAS NOT YET

AGREED TO COMMIT TO ITS DEVELOPMENT AND IMPLEMENTATION.

CERTAIN OF THE EXCHANGES HAVE RAISED POLICY CONCERNS WITH RESPECT TO THE PROPOSED INTERFACE. FOR EXAMPLE, ONE EXCHANGE EXPRESSED CONCERN THAT, WITH AN AUTOMATED INTERFACE IN PLACE, EXCHANGE MEMBER FIRMS COULD USE THE ITS, THROUGH THE NASDAQ INTERFACE, AS AN ORDER ROUTING MECHANISM IN STOCKS WHERE THEY WERE NOT ACTING AS MARKET MAKERS. IN ADDITION, CONCERNS WERE RAISED THAT PROVIDING EXCHANGE MEMBERS WITH THE ABILITY TO SEND ORDERS DIRECTLY TO THE THIRD MARKET FROM EXCHANGE FLOORS WOULD WORK A DE FACTO REPEAL OF OFF-BOARD TRADING RESTRICTIONS IN ALL ITS STOCKS -- NOT JUST 19c-3 SECURITIES. FINALLY, THE NYSE INDICATED THAT IT WAS GOING FORWARD WITH ITS OWN SYSTEM TO LINK UPSTAIRS FIRMS MAKING MARKETS IN RULE 19c-3 SECURITIES DIRECTLY TO THE NYSE FLOOR.

WITH RESPECT TO CONCERNS ABOUT OFF-BOARD TRADING RESTRICTIONS AND ORDER ROUTING, THE EXISTENCE OF AN ITS/NASDAQ INTERFACE SHOULD NOT BE PERMITTED TO HAVE ANY DIRECT EFFECT

ON EXISTING OFF-BOARD TRADING RULES, AND THE LIMITING OF UPSTAIRS ACCESS TO THE ITS IN PARTICULAR 19c-3 STOCKS TO FIRMS MAKING MARKETS IN THOSE SECURITIES MIGHT WELL BE ACCEPTABLE. NOR SHOULD THERE BE ANY OBJECTION TO THE NYSE'S DESIGNING AND OPERATING ITS OWN SYSTEM FOR LINKING THE EXCHANGE AND OVER-THE-COUNTER MARKETS; INDEED, I WOULD WELCOME AND ENCOURAGE THEIR COMPETITIVE EFFORTS IN THIS REGARD. AT THE SAME TIME, HOWEVER, IT MUST ALSO BE MADE ABUNDANTLY CLEAR THAT SUCH EFFORTS SHOULD BE IN ADDITION TO, AND NOT DISPLACE, IMMEDIATE IMPLEMENTATION OF AN AUTOMATED LINKAGE DIRECTLY BETWEEN THE ITS AND THE ENHANCED NASDAQ SYSTEM -- AND BOTH THE EXCHANGES AND THE NASD MUST SHARE ULTIMATE RESPONSIBILITY FOR THE EFFECTIVE OPERATION AND SURVEILLANCE OF SUCH A LINKAGE.

THE COMMISSION HAS BEEN INFORMED THAT THERE ARE NO SIGNIFICANT TECHNICAL IMPEDIMENTS TO THE PROMPT ESTABLISHMENT OF THE ITS/NASDAQ LINKAGE, AND THAT, GIVEN A GENUINE, GOOD FAITH COMMITMENT FROM THE VARIOUS INTERESTED SELF-REGULATORY ORGANIZATIONS, A MEANINGFUL PILOT LINKAGE COULD BE OPERATIONAL

IN THE FIRST QUARTER OF 1981. GIVEN THE IMPORTANCE OF THIS LINKAGE BOTH TO OUR CONTINUING EFFORTS TO EXPERIMENT WITH MARKET INTEGRATION MECHANISMS SUFFICIENT TO ESTABLISH THE FAIR FIELD OF COMPETITION ENVISIONED BY CONGRESS, AS WELL AS TO CONTINUED COMMISSION AND CONGRESSIONAL RELIANCE ON THE SECURITIES INDUSTRY AS THE PRIMARY MOTIVE FORCE IN DEVELOPING A NATIONAL MARKET SYSTEM, I URGE THE PARTIES TO IMMEDIATELY COMMIT THEMSELVES TO PROMPT IMPLEMENTATION OF AN EFFECTIVE, AUTOMATED ITS/NASDAQ LINKAGE WITHOUT THE NEED FOR RESORT TO REGULATORY COMPULSION.

QUALIFIED SECURITIES

ANOTHER AREA CALLING FOR PRIORITY CONSIDERATION IS FOR THE COMMISSION TO BEGIN THE DESIGNATION OF SECURITIES AS QUALIFIED FOR TRADING IN A NATIONAL MARKET SYSTEM. JUST AS AN EVOLUTIONARY APPROACH TO THE NATIONAL MARKET SYSTEM GENERALLY IS APPROPRIATE TO ENSURE THAT THAT SYSTEM DEVELOPS WITHOUT ADVERSE CONSEQUENCES TO THE MARKETS, SO TOO THE

DESIGNATION OF SECURITIES AS "QUALIFIED" FOR TRADING IN THE NATIONAL MARKET SYSTEM MUST BE A STEP-BY-STEP PROCESS -- WITH EACH NEW STEP BUILDING UPON THE EXPERIENCE GAINED FROM THE PRECEDING ONE, AND WITH EACH STEP PROPERLY VIEWED TOGETHER AND SYNCHRONIZED WITH OTHER NATIONAL MARKET SYSTEM DEVELOPMENTS.

COMMISSION ACTION ON THE NEXT STEP IN THE PROCESS OF DESIGNATING SECURITIES CAN BE EXPECTED SHORTLY. AS THE COMMISSION HAS INDICATED ON SEVERAL OCCASIONS, IN ADDITION TO MANY EXCHANGE-TRADED SECURITIES, THE EQUITY SECURITIES OF A NUMBER OF ISSUERS CURRENTLY TRADED EXCLUSIVELY IN THE OVER-THE-COUNTER MARKET GENERALLY POSSESS CHARACTERISTICS -- SUCH AS NATIONAL INVESTOR INTEREST, SUBSTANTIAL ASSETS AND EARNINGS HISTORY, AND SIGNIFICANT TRADING VOLUME -- WHICH WOULD JUSTIFY THEIR INCLUSION ALSO IN A NATIONAL MARKET SYSTEM. ACCORDINGLY, WHILE THE COMMISSION HAS NOT YET CONSIDERED THE MATTER, ANY SUCH INITIATIVE SHOULD, IN MY

VIEW, INCLUDE THE DESIGNATION OF AT LEAST A LIMITED NUMBER OF OVER-THE-COUNTER STOCKS AS QUALIFIED SECURITIES. OVER-THE-COUNTER SECURITIES WHICH DO BECOME SO DESIGNATED SHOULD IMMEDIATELY BE INTRODUCED TO LAST SALE AND QUOTATION REPORTING OF THE TYPE THAT NOW PREVAILS FOR LISTED SECURITIES AND, IN GENERAL, SHOULD EVENTUALLY BE ELIGIBLE FOR UNLISTED TRADING PRIVILEGE APPLICATIONS BY EXCHANGE MARKETS. SUCH INITIATIVES, OF COURSE, WOULD BUILD ON THE ENHANCEMENTS TO THE NASDAQ SYSTEM AND THE ITS/NASDAQ INTERFACE DISCUSSED EARLIER -- AND THEIR EVENTUAL REALIZATION WOULD, IN TURN, MAKE SUCH FACILITIES DEVELOPMENTS ALL THE MORE NECESSARY AND REWARDING.

THE INCLUSION OF OVER-THE-COUNTER SECURITIES IN THE NATIONAL MARKET SYSTEM THUS OFFERS A UNIQUE OPPORTUNITY AND CHALLENGE TO PARTICIPANTS IN BOTH THE OVER-THE-COUNTER AND EXCHANGE MARKETS. THE SAME TYPE OF COMMITMENT TO IMPROVING THE QUALITY OF THE OVER-THE-COUNTER MARKET THAT WAS DISPLAYED RECENTLY BY THE NASD'S SUPPORT OF THE REMOVAL OF THE REPRESENTATIVE BID AND ASK IN NASDAQ, AND BY THE NASD'S

ADOPTION OF ITS NEW GROSS PRINTING RULE, MUST CHARACTERIZE THE OVER-THE-COUNTER MARKET'S RESPONSE TO NEAR-TERM LAST SALE AND QUOTATION REPORTING AND THE POTENTIAL FOR UNLISTED TRADING PRIVILEGES IN OVER-THE-COUNTER SECURITIES. SIMILARLY, THE NATIONAL SECURITIES EXCHANGES MUST DO THEIR PART IN THIS ENDEAVOR -- AND, ONCE AGAIN, THE PROMPT AND EFFECTIVE IMPLEMENTATION AND OPERATION OF AN ITS/NASDAQ LINKAGE IS THE FIRST STEP IN THAT DIRECTION.

FINALLY, THESE DEVELOPMENTS WILL ALSO OBVIOUSLY TEST THE SURVEILLANCE CAPACITY OF ALL PARTICIPATING SROs TO DEAL EFFECTIVELY WITH TRADING IN OVER-THE-COUNTER SECURITIES, PARTICULARLY BY INTEGRATED FIRMS WITH RETAIL ORDER FLOW. THEY ALSO CONFIRM THE NEED FOR ENHANCED SRO "AUDIT TRAIL" CAPABILITY, AS WELL AS FOR PROMPT IMPLEMENTATION OF THE COMMISSION'S OWN LONG OVERDUE MOSS SYSTEM.

Other Initiatives

IN ORDER TO ACHIEVE FURTHER PROGRESS ON THE NATIONAL

MARKET SYSTEM, THERE ARE AT LEAST TWO OTHER AREAS OF CONCERN THAT MUST BE ADDRESSED IN A TIMELY FASHION. THESE AREAS, LIKE THE DEVELOPMENT OF THE NATIONAL MARKET SYSTEM ITSELF, ARE VITAL TO THE CONTINUED EFFICIENCY AND INTEGRITY OF THE MARKETS AND, IN TURN, TO THE SUCCESSFUL IMPLEMENTATION OF STILL FURTHER NATIONAL MARKET SYSTEM INITIATIVES.

AS I INDICATED AT THE BEGINNING OF MY TALK, AND AS YOU ARE ALL WELL AWARE, VOLUME IN ALL TYPES OF INVESTMENT VEHICLES, BUT PARTICULARLY EQUITY SECURITIES, HAS INCREASED RAPIDLY IN RECENT YEARS BEYOND ALL PROJECTIONS. THIS TREND APPEARS TO BE CONTINUING. WE HAVE REASONS TO BE IMPRESSED AND PLEASED WITH THE INDUSTRY'S ABILITY TO SCALE UP TO CURRENT VOLUME LEVELS AND TO HANDLE PEAK DAYS OF MORE THAN 80 MILLION SHARES. BUT, AS I MENTIONED FROM THIS PODIUM LAST YEAR, THE INDUSTRY NEEDS TO TAKE ACTION NOW TO ENSURE THAT THE EXECUTION AND CLEARING FACILITIES ARE IN PLACE TO DEAL WITH THE EXTENDED PERIODS OF HIGH VOLUME DAYS WHICH NOW APPEAR TO BE JUST AROUND THE CORNER.

LATE LAST YEAR, I CALLED UPON THE NEW YORK STOCK EXCHANGE AND OTHER MARKETS TO DEVELOP THE NEAR-TERM CAPABILITY TO HANDLE A GROWTH IN TRADING VOLUME CHARACTERIZED BY 150 MILLION SHARE DAYS ON THE NYSE. SOME AT THAT TIME MAY HAVE THOUGHT THAT I WAS BEING UNDULY ALARMIST. TODAY, IN LOOKING AT RECENT VOLUME FIGURES, I WONDER -- AS MUST WE ALL -- WHETHER EVEN THAT CAPACITY IS SUFFICIENT.

MUCH OF WHAT NEEDS TO BE DONE TO DEAL WITH INCREASED VOLUME -- IN TERMS OF BACK OFFICE, EXECUTION, AND SETTLEMENT CAPACITIES -- MUST OCCUR REGARDLESS OF NATIONAL MARKET SYSTEM DEVELOPMENTS, BUT MUST BE DESIGNED AND IMPLEMENTED IN SUCH A WAY SO AS BOTH TO REFLECT THOSE DEVELOPMENTS WHICH HAVE OCCURRED TO DATE AND TO FACILITATE THE CONTINUED EVOLUTION OF THE MARKETS. IN FACT, THE MOST CRITICAL TESTS OF THE INDUSTRY'S INGENUITY, INNOVATION, AND CAPITAL MAY DERIVE NOT FROM THE EVOLUTION OF THE NATIONAL MARKET SYSTEM VIEWED BY ITSELF, BUT FROM MORE FUNDAMENTAL DEMANDS TO SERVICE THE MARKET PLACE AS IT EXISTS TODAY, AND AS IT WILL CHANGE IN THE FUTURE.

IN ADDITION TO INCREASED INDUSTRY CAPACITY, THE INTEGRITY OF THE MARKET PLACE DEPENDS, TO A LARGE EXTENT, ON A MORE EFFECTIVE SURVEILLANCE OF THE MARKETS. THIS IS PARTICULARLY TRUE IN LIGHT OF THE SIGNIFICANT INCREASES IN VOLUME AND THE EXPANSION OF NEW INVESTMENT VEHICLES WHICH INCREASE THE INTERRELATIONSHIPS AMONG THE DIFFERENT MARKETS. UNDER THE FRAMEWORK OF THE SELF-REGULATORY SYSTEM WHICH GOVERNS THE SECURITIES MARKETS -- AND WHICH HAS WORKED SO WELL OVER THE YEARS -- THE EXCHANGES AND THE NASD ARE THE PRIMARY REGULATORS OF THE MARKETS, WITH THE COMMISSION SERVING PRIMARILY IN AN OVERSIGHT CAPACITY. FOR THIS FRAMEWORK TO CONTINUE TO BE EFFECTIVE, THE SROs MUST MAINTAIN AND ENHANCE THEIR SURVEILLANCE PRESENCE. THE COMMISSION, AT THE SAME TIME, REMAINS COMMITTED TO THE FRAMEWORK WITH A VIGOROUS OVERSIGHT EFFORT AND A STRENGTHENED SRO INSPECTIONS PROGRAM -- FOCUSING ON IMPROVED SRO SURVEILLANCE AND AUDIT TRAIL-TYPE MECHANISMS -- AS WELL AS THE IMPLEMENTATION OF THE MOSS SYSTEM.

SIGNIFICANTLY INCREASED STAFF RESOURCES AND COMMISSION ATTENTION HAVE BEEN DEVOTED TO THESE EFFORTS IN THE PAST YEAR, AND THE COMMITMENT CAN BE EXPECTED TO INCREASE STILL FURTHER IN THE FUTURE. FOR, HERE AGAIN, SUCH ENHANCED SURVEILLANCE FACILITIES AND EFFORTS ARE CRUCIAL NOT ONLY TO THE SUCCESSFUL OPERATION OF OUR CAPITAL MARKETS IN THE EXISTING ECONOMIC AND REGULATORY ENVIRONMENT, BUT ALSO TO ENSURING THAT CHANGING CONDITIONS ARE FORESEEN ON A TIMELY BASIS, REACTED TO PROMPTLY, AND ABSORBED WITH THE LEAST DISRUPTION POSSIBLE OF THE FLOW OF THE MARKET'S VITAL BUSINESS.

CONCLUSION

OUR CAPITAL MARKETS ARE TODAY THE FINEST IN THE WORLD. NOTHING IN THE EVOLUTIONARY CHANGES WHICH THOSE MARKETS ARE CURRENTLY UNDERGOING IS INCONSISTENT WITH MAINTAINING THAT PREEMINENCE; INDEED, THE ONGOING DEVELOPMENT OF A NATIONAL

MARKET SYSTEM IS NECESSARY -- AND WILL, IN MY JUDGMENT,
CONTRIBUTE SIGNIFICANTLY -- TO THE CONTINUED STRENGTH OF, AND
INTERNATIONAL CONFIDENCE IN, OUR SECURITIES MARKETS AND THE
PRIVATE ENTERPRISE SYSTEM WHICH THEY SUPPORT.

SIMILARLY, NOTHING IN THE CURRENTLY CHANGING ECONOMIC
AND REGULATORY ENVIRONMENT IS INCONSISTENT WITH A FINANCIALLY-
SOUND SECURITIES INDUSTRY WHICH AFFORDS SIGNIFICANT PROFIT
OPPORTUNITY AND REWARD FOR RISK-TAKING. OUR OBLIGATION --
BOTH THE INDUSTRY'S AND THE COMMISSION'S -- IS TO GET ON
WITH THE TASK OF BUILDING A FUTURE FOR OUR SECURITIES
MARKETS WHICH WILL ENSURE THEIR PREMINENCE AND CONTINUED
ABILITY TO ATTRACT THE INVESTMENT CAPITAL OF THE FREE
WORLD.