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Remarks by

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The main thrust of the report on the securities markets which I submitted to the Board of Governors of the New York Stock Exchange last summer was the importance of creating a national exchange market system to provide an auction market, regardless of geographic location, for each security qualified for listing, and reorganization of the Board of Governors of the New York Stock Exchange to reflect in its governance the needs of a modern corporation serving the public. Significant progress is being made on both fronts.

On returning to Wall Street after 30 years' absence, it became clear to me that a market organized to provide equal and responsible service to more than 31 million Americans, and one whose participants could be expected to more than double as we move from the trillion dollar to the quadrillion dollar economy, must be nationwide in scope. Maximum liquidity with centralized disclosure of all executions of buy and sell orders and other material facts is essential. After traveling from coast to coast and seeking the views of all segments of the financial community I became convinced that the auction market continues to be the fairest and best suited to perform this service. Fuller disclosure than we presently have and ascertainable responsibility for all trades are the keystones on which the foundation must be laid.

Through the years the New York Stock Exchange has devloped such a market. More than half the common stocks publicly traded on all the free world markets are listed on it. And during my tenure as president the corner of Broad and Wall Streets was a communication nerve center which caused orders automatically to gravitate in its direction.

Today two new forces--institutional investors and computers--have changed the entire securities industry. Both of these forces have matured apart from the New York Stock Exchange and there is now serious question as to whether the primary equity market will continue to be an exchange market with concepts of listing and membership requirements and responsibilities. An auction market of the current type presupposes one in which brokers are more likely to be acting as agents than as principals and the basic question now is whether this market will gradually become one in which the public must perforce deal almost exclusively with professionals as in so many European markets.

Many transactions in securities listed on the New York Exchange are now executed on various other Exchanges and in the third and fourth markets. If this occurs under similar rules and regulations it may constitute competition which makes for a better market, but where it occurs because of unequal regulations, which among other things do not require full disclosure and equal responsibility of participants, I submit that it undermines and impairs the depth, breadth and resiliency of the market. Wherever I visited I was struck with the difficulties differences in disclosure of information and differences in access to markets have made for the public and fiduciaries to obtain prices which they can confidently defend as being the best available at the time. During five months of painstaking work and observation I noted many undisclosed transactions, or trades, which were reported long after the fact, which, in my judgment, were made to order for the manipulator and the operator. Trades of this type over a period of time impair liquidity and put the little man at the mercy of the professionals. Certainly no one doubts that the integrity of markets is at the cornerstone of public confidence.

All of our markets are now subject to supervision under the Securities Acts and the operating crises of the past few years have been and continue to be reviewed by Congressional committees. It is doubtless just a matter of time until we have important revisions in the current law and in all probability entirely new securities legislation.

Some people yearn for a return to the "good old days" when self-regulation in the pure sense, without any special Government supervision, was the order of the day. This is neither practical nor desirable in light of the record over recent decades. Currently the Securities and Exchange Commission is justified in seeking more authority and substantially larger appropriations for administrative purposes.

To serve the interests of the public and the nation, which depend on the securities markets to raise the capital necessary to finance the economy, as well as the interests of the securities industry, a new national central market system should be developed as rapidly as possible. I am gratified that this proposal seems to be accepted generally and the Exchanges, with the blessing of the S. E. C. and thé cooperation of many who are now nonmembers, are actively working to achieve it. Many details involved in creating a single consolidated exchange tape must still be worked out but there is no question about its feasibility and few question its desirability.

The work of BASIC under the leadership of John Meyer and Herman Bevis and the broadening of the N. Y. S. E. Central Certificate Clearing Corporation, and the ingenious new automated trading system, "Am Code," offered as a prototype of a future national exchange by the American Stock Exchange, are all evidences of this progress.

And now let me say a few things about commissions. Determining what charges ought to be, whether on a fixed or on a negotiated basis, is complicated by the requirements of customers for service, research, and advice. The business of the small investor has never been profitable per se in comparison with large investors and the popular belief that negotiating lower charges on big orders will lead to lower charges to the small investor is in my judgment fallacious.

Current charges for agency transactions are very low compared to the dealer profit on net transactions over the counter and I am inclined to believe that in the long run totally negotiated rates will prove costly to investors. I am fully aware that this is a judgment which can only be proved by time and experience, but it is something which should be carefully pondered.

It is my hope that after careful study and review, the Securities and Exchange Commission and the Exchanges will halt the experimentation with negotiation at the $300,000 level and, in any event, not go lower than $100,000. Let us not forget that for millions of individual investors there will be no negotiation. They will either pay the price their broker demands or they will not trade.

In a review of my report last October, Mr. Gordon Henderson, writing for The Review of Securities Regulation published by Standard and Poor's, states better than I did exactly what I was trying to point up. Accordingly, I am going to quote directly from that report:

> "The main question we must face is whether our primary equity trading market will continue to be an exchange market, with its related concepts of fixed commission rates, listing standards, membership responsibilities, and specialists--an auction market structure in which one's broker is more likely to be acting as agent than principal. Or will a course be followed that causes the primary market to take on more of the characteristics we presently associate with the over the counter market---negotiated rates, minimal 'listing' standards, and a market-maker-dealer orientation?

"It may make a great deal of difference which way we go. It is impossible to be certain, but there is at least a possibility that if we go the over the counter route the consequences will be as follows. The trading markets may be dominated by block trading between large institutions and block-positioning market makers. Smaller investors may find it increasingly difficult to trade in these markets, with the possible result that the country of 'people's capitalism' may experience a shrinkage in the percentage of individuals owning equities directly, rather than through institutional intermediaries. Price and block-positioning competition between broker-dealers may lead to the demise of many smaller brokerage firms--with the consequence that those who favor an over the counter type market because they consider the minimum commission rate structure anticompetitive might produce, by its elimination, a concentration in economic power which may prove far more anticompetitive than the minimum commission rate structure.

"The decisions we make on items of market structure can therefore have far-reaching consequences not just for the brokerage community but for our economy as a whole..."

It is easy to see ghosts, and to raise unjustifiable fears, whenever changes in a time-honored practice are proposed but our markets have been so clearly the best in the world that it behooves us to think through all our moves to be sure we are not impairing their vitality.

Not long ago I testified before the Senate Subcommittee on Securities on institutional investors and made clear my view that institutions should not be permitted to join exchanges or engage in the brokerage business. It is important, in my jud jment, to keep a line between the brokerage business and other businesses, just as in the field of banking it is important to distinguish between commerce and banking. A mutual fund is a vehicle for investment and is not in the brokerage business, or at least should not be. I realize the line is difficult to draw and, in the case of banking, the Federal Reserve Board has been given the power to define what activities are related to banking. In the field of securities I think the Securities and Exchange Commission should be given similar authority with respect to the allied activities of brokers.

In debating the question of institutional membership, much more time and effort have been spent on the size of commissions and how to reduce them than on the more important factors of market impact. Very little attention has been paid to the possible concentration of power and the possibility of a market completely dominated by dealers dealing for their own account and eliminating the agency relationship between brokers and customers.

In September the New York Stock Exchange appointed a Committee, chaired by Cornelius Owens, to review my recommendations to reorganize its governance. They made a report which was approved by the Board of the Exchange and endorsed by the members, and now is in process of being consummated. The vote of the membership was 852 to 109, more than 8 to 1. I am very pleased with the report of the Owens Committee and although it did not follow my plan exactly, and indeed I did not expect it to do so, it accepts all the major premises and is, in my judgment, a milestone in adapting the organization of the Exchange from what has frequently been described as a "club" to that of a truly modern corporation serving the public interest. Further progress will now depend on the character and competence of the new paid board chairman and the quality and caliber of the 10 outside public governors. To those who have followed the history of the New York Exchange, its development and its gradual evolution into the foremost marketplace in our country, this is a remarkable achievement. When I look back on the progress that has been made over the past year and the quality of the thinking going on in the industry with respect to institutional members, commissions, the role of the little man and the small broker, I feel well rewarded in my efforts in making the report. Obviously, there are a number of things, such as broader access to membership and a more independent method of electing outside directors which, were I doing it on my own, I would do now. But none of these is fundamental and can await further developments.

Ultimately I am convinced we will develop a federal security system patterned after the one we have for banking in the Federal Reserve System, and perhaps there will be an industrywide board of all the Exchanges acting under the supervision of the Securities and Exchange Commission. This lies in the future but I am fully convinced that we are well on the road to major improvements in the organization, structure, utility, and management of our securities markets.

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