COMPETITION AND TECHNOLOGY: A HAPPY MARRIAGE AT THE NYSE

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It’s always a pleasure for me to revisit my home state of West Virginia. And it’s a special pleasure to be able to combine such a visit, however brief, with a renewal of my long and happy association with the American Society of Corporate Secretaries. I thank you for giving me the opportunity to do both.

In return, I would like to extend an invitation to all of you -- to visit the New York Stock Exchange’s new Visitors Center, which we opened just three days ago. We’re quite proud of the new Center, and I’d like to take just a few minutes to tell you why.

Those of you who may have visited the old Exhibit Hall and Visitors Gallery in recent years probably recognized that it had become shabby and old-fashioned looking, even though it was, in fact, only 22 years old when we ripped it out earlier this year. Even so, the old installation continued to be one of New York’s major tourist attractions, with nearly half a million visitors passing through each year.

We will be very much surprised if the new Visitors Center doesn’t start drawing many more people than that, once word gets around that it’s not only one of the few free attractions left in New York, but that it’s also a fascinating educational and entertaining place to visit.

We've designed it as an Economic Experience Center, where visitors will have an opportunity to acquire a good deal of information about how our country's unique private enterprise system really operates to the benefit of all Americans. Virtually all of the new exhibits are automated and designed to be operated by the visitor. They range from easy-to-understand multi-lingual explanations of the importance of capital formation -- to computerized games and quizzes, based on simulated market conditions, that give the visitor a chance to find out how much he or she has learned.

The most popular feature of a visit to the Exchange has always been the opportunity to see the trading floor in action. And to make that a much pleasanter experience for our guests, we now have a completely refurbished split-level Visitors Gallery, with automated narrations of just what's going on down there on the floor -- in the visitor's choice of five languages.

One special feature of the new Visitors Center is an opinion-polling facility that will help us find out what visitors think about current economic and other market-related issues.

Another special feature is a listed company display that enables the visitor to discover at a glance whether a particular company's stock is traded on the Exchange. And we are developing a supplementary feature for listed companies that choose to become sponsors of the Visitors Center for an annual fee of $1,000. A company message of up to 500 words can be stored in the exhibit's computer; and a visitor will be able to push a button and receive, immediately, a hard-copy printout of that message.

So much for the commercial.

A great many other things have been happening at the Exchange lately, and I'd like to use this opportunity to give you some idea of what we've been up to -- in two broad areas: first, in dealing with the intensely competitive new environment in which listed securities are now traded; and, second, in positioning the Exchange to be the most efficient, cost-effective, responsibly diversified marketplace of the future.

COMPETITION ON THE TRADING FLOOR

The key word in the securities business today is competition. And the key to being a strong, successful business competitor is, of course, to offer high-quality products or services.

Since the New York Stock Exchange is, above all else, a marketplace, our highest priority has been to strengthen the quality of that marketplace. This has meant, among many other things, bringing new dimensions of competition to our trading floor.

Listed companies, of course, have always been very much concerned about how their stocks are allocated to Exchange specialists. As a listed company executive for many years, I used to wonder about that myself.

Well, I believe we have succeeded in taking the mystery out of how stocks are assigned, by making the process intensely competitive. Under standards adopted in 1976, the allocation of stocks is administered by an Allocation Committee, of which the majority of the members are non-specialists. This committee is one of the operating arms of our Board-level Quality of Markets Committee which, in turn, oversees the entire operation of the marketplace. One of the most important criteria is a Specialist Performance Evaluation Questionnaire, submitted quarterly by floor brokers. The brokers' responses evaluate the specialist's effectiveness in bringing buyers and sellers together, the quality of his participation as a principal, and his efficiency in handling the administrative details related to trading in the stocks assigned to him. Since a specialist's ability to expand his business depends, in large measure, on having new stocks assigned to him, this evaluation program has provided an important stimulus to higher standards of specialist performance.

Some idea of the intensity of competition for newly listed stocks can be gained from the fact that, last year, an average of 11 specialists applied for the common stocks of each of the 54 newly listed corporations. And in one case, 35 specialists competed for a single stock. I should perhaps add that the six-member Quality of Markets Committee -- which includes three Directors of the Exchange from outside the securities industry-- annually reviews the performance of the Allocation Committee to make certain that allocation decisions continue to be fair and appropriate and continue to create incentives for strong specialist performance.

We have also encouraged the idea of competing specialists. And while this has not been too successful, another of our efforts to strengthen market-making competition on the trading floor has produced very substantial results. We have created a new category of membership --Registered Competitive Market-Makers-- who can trade in any listed stock. About 50 of these market professionals have specific obligations to trade for their own or their firms' accounts --when called upon by an Exchange official-- by making a bid or an offer that will narrow the existing quote spread or improve the depth of an existing quote in any listed stock. A Registered Competitive Market-Maker may also be asked to assist a commission broker or a floor broker in executing a customer's otherwise unexecutable order in any listed stock.

How effective are these people? From May 1, 1978, when they assumed their new market-making functions, through the end of the year, Registered Competitive Market-Makers bought and sold nearly 36 million shares of listed stocks. They bettered the prevailing bid or offer price 28% of the times they traded, and they added size to the prevailing bid or offer 60% of the time.

COMPETITION WITH OTHER MARKETS

Competition on a different level --competition for the flow of orders-- has greatly intensified among the various market centers in which listed stocks are traded. This, of course, was one of the major objectives of the Securities Acts Amendments of 1975, in which Congress established broad guidelines for the evolution of a National Market System.

The heart of the evolving National Market System is the Intermarket Trading System --ITS-- that today electronically links trading in more than 500 listed stocks that are traded on any two or more of the six registered stock exchanges that have cooperatively developed the system. ITS, as many of you know, operates in conjunction with a Composite Quotation System that displays the bid and offered prices --as well as the number of shares offered at those prices-- from the American, Boston, Midwest, New York, Pacific and Philadelphia Stock Exchanges. Any broker holding an order on the floor of any of those exchanges can reach out to any of the others whenever a better price may be shown to be available there.

ITS began a pilot operation in April 1978. And the system has been continuously enhanced -- to the point where, last month, a daily average of 630,000 shares traded through it, with more than 77% of all trading commitments actually being executed on another exchange. It now takes an average of only 45 seconds for a broker on one floor to make a commitment to buy or sell a specified number of shares of an ITS stock offered or bid for on another exchange -- and to receive a response telling him that the order has been executed there.

ITS is unique in that it has been cooperatively developed by competing market centers.

OPENING UP THE NYSE

At the NYSE, we have been moving decisively to “open up” the Exchange -- to demonstrate not only that we welcome competition, but that we also want all of our constituents to play an increasingly vigorous role in helping determine the Exchange’s future.

For example, it is no longer necessary to purchase a membership from an existing member in order to gain access to our trading facilities. Qualified professionals can now purchase a full annual membership. Or they can arrange to have electronic access to our floor. Or they can lease a membership from an existing member. In addition, non-members who are members of other exchanges now have ready access to our market through the Intermarket Trading System. And we are now moving ahead to develop a Market Center Limit Order File --a new electronic mechanism that will enhance protection of public limit orders-- to which non-member professionals will also have ready access.

Recognizing that we serve many different constituencies that have a direct stake in how the Exchange is governed and operated, we have increased direct participation by many groups in the Exchange’s decision-making process. This actually began with the reorganization of the Exchange’s governing structure, back in 1972, and has been steadily broadened over the years since then.

The first step was to restructure the governing board -- from a cumbersome 33-member body that included only three public members, to a corporate-style Board of Directors consisting of 10 Securities Industry Directors, 10 Public Directors, and a full-time, paid Chairman.

We have also developed a carefully structured Board Committee system that draws equally on the skills and expertise of Public and Industry Directors. Public Directors comprise half the membership of our Audit Committee and are a majority of the members of our Compensation and Public Policy Committees. Our Nominating

Committee --which is not a Board Committee-- consists of four securities industry and four public members. So you can see that, in managing our own affairs at the Exchange, we are careful to practice what we preach to our listed companies.

Soon after our newly constituted Board took office in 1972, the Exchange began further expanding outside participation in decision-making, by chartering a number of high-level Advisory Committees of specific constituent groups to keep the Board continuously informed about their policy-related interests and concerns. Today, seven such committees are regularly providing the Board with extremely valuable input. Three of them represent different elements within the Exchange membership: small firms, regional firms and upstairs traders. Four others keep the Board posted on matters involving the international capital markets, the needs and views of institutional investors, securities-related issues of particular interest to the legal profession, and the concerns of the listed company community.

Not surprisingly, one of the most active of these groups has been the Listed Company Advisory Committee of 18 chief executive officers of companies representing the full spectrum of industries, company size, geographic location, and so on, of our corporate roster. The committee was originally chaired by C. Peter McColough, of Xerox, who is now a Public Director of the Exchange. He was succeeded by W. J. Bowen of The Transco Companies, who is now completing his term. The new chairman of the committee will be Rawleigh Warner, Chairman of Mobil.

As you might imagine, the committee took a very active interest in our joint survey, with your organization, of the structure and composition of corporate boards. In recent months, the committee has given us extremely valuable advice on disseminating the results of the Exchange's landmark survey of Public Attitudes Toward Investing; and it played a key part in developing the Exchange's recommendations for major revisions in the proxy and tender offer rules changes proposed by the Securities and Exchange Commission over the past year.

NEW SEC PROPOSALS

Most recently, the committee participated in formulating our position with respect to a new SEC proposal directly affecting the interests of corporations. The gist of that proposal is to allow unrestricted over-the-counter trading in any stock listed on any exchange after last April 26th. We will be testifying before the Commission on this issue tomorrow morning, so I might just digress for a moment. Essentially, this would be a first step in removing the off-board trading rules of the exchanges -- an issue which aroused considerable opposition among listed companies two years ago. The present proposal has been described as an "experiment" affecting only companies whose stocks now trade only over the counter. But there is considerably more to it than that.

Among many other things, the Commission's proposed action would substantially withhold from investors and corporate issuers alike the advantages of more liquid markets, with narrower price spreads, that normally develop when stocks move from the over-the-counter market to an exchange market. In addition, the Commission's proposal offers no assurance that broker-dealers trading the affected stocks in their offices would not be able to use their professional advantages of time and place to the specific disadvantage of their own customers and other investors.

The Commission is also proposing an extremely broad definition of "newly listed" equity securities that would not be subject to the off-board trading rules. As far as we can tell, this would apparently include a formidable array of stocks and other securities that listed companies might wish to issue in the future -- so that a single company might have some securities that were subject to the off-board trading rules, and others that were not. The potential for confusing investors and issuers alike is considerable.

After the hearings end, next Monday, we will be distributing to all listed company CEOs and corporate secretaries a summary of the issues and of all testimony presented to the Commission -- including, of course, our own. I believe many companies will want to assess for themselves the potential impact on their capital-raising plans and efforts. The Commission has said it will accept additional comments until July 22nd, and many of you may want to take advantage of that opportunity.

This is not the only new SEC proposal affecting how and where corporate securities are to be traded in the future. Just two weeks ago, the Commission published its ideas about corporate securities that should be traded in the National Market System. Comments on proposed alternative criteria for determining which listed and over-the-counter stocks must be traded in the system --and which may be traded under what circumstances-- are due by August 15th. And I doubt very much that the management of any publicly held corporation can afford not to study the proposals very carefully in light of their prospective impact on trading in the company's stock.

I believe it should be increasingly clear from all of these developments that the corporate community's stake in what's happening in the securities industry is becoming more important with each passing day. It is no longer a question of whether you choose to get involved in the issues and development of the National Market System; the time is rapidly approaching when every publicly held corporation will find itself very intimately involved -- whether it wants to be or not.

THE MODERN MARKETPLACE

As the complex strands of the evolving National Market System become ever more tightly interwoven, we, at the New York Stock Exchange are focusing ever more intently on the importance of modern technology and efficient physical facilities that will ensure our ability to keep pace with --indeed, ahead of-- the rapidly evolving, intensely competitive trading environment of the future.

Perhaps the most readily visible manifestation of this are the dramatic changes that are taking place behind the Exchange's venerable facade -- particularly on the trading floor where so many of your companies' stocks are traded. The stepped-up pace of competition for the flow of investors' orders to buy and sell corporate securities demands not only that we be able to accommodate the variety of complex new electronic systems that are developing in connection with the evolving National Market System -- but that we be prepared for whatever the future may hold.

So we are replacing all the old trading posts --most of which have been in place for half a century-- with new modular-design posts that can be readily modified, rearranged and restructured to accept whatever new electronic systems may be created in the future.

One of the new posts is already operating on a pilot basis, and we expect the full conversion to be completed --without any interruption in the trading of any listed stock-- by the fall of next year.

WHAT LIES AHEAD?

What one observer has described as the "rather surprising, but apparently quite happy marriage of competition and technology at the New York Stock Exchange," has led to a number of other innovative activities and programs.

Foremost among these is the Exchange's push to broaden its product line beyond the conventional range of corporate securities on which its business is so firmly grounded. And since I find that I have been talking rather longer than is either my personal custom or consistent with good platform manners, let me just tick off a few of the additional efforts that are keeping our staff busy these days.

- First, we are preparing to enter an entirely new field, with the establishment of the New York Futures Exchange -- a wholly owned subsidiary of the New York Stock Exchange. Just last week, we filed a detailed application with the Commodity Futures Trading Commission requesting designation of the New York Futures Exchange as a contract market for 90-day United States Treasury bills, 20-year U.S. Treasury bonds, and five foreign currencies: British pounds, Canadian dollars, West German marks, Japanese yen and Swiss francs. We expect to begin operations early next year and are prepared to expand trading capacity rapidly over the following three years.

- Second, enhancements to our Automated Bond System have greatly expanded the Exchange's potential for taking a much more aggressive posture in competing for the flow of orders in listed corporate bonds. This is an area of product development which, unaccountably, the Exchange has treated with benign neglect for far too long.

- And third, subject to the SEC's long-awaited decisions about permitting expanded trading in standardized options, we are waiting to get on with the creation of a New York Stock Exchange Options Market.

We also have a number of projects on the drawing boards, or under discussion, which are likely to be of particular interest to listed companies.

For example, we are considering the possibility of a follow-up to last year's Public Attitudes Survey that might shed additional light on what must be done --by both government and business-- to stimulate a strong revival of individual participation in the market.

We will be undertaking a study of Policies To Meet The Growth Needs Of The 1980s, in collaboration with Professor Lawrence Klein of the University of Pennsylvania's Wharton School.

And we have begun preliminary planning for a 1980 Census of Shareowners that, we all hope, might show some reversal of the five-year downtrend in individual shareownership in America that we documented in 1975.

Since we will almost certainly be requesting various forms of assistance from listed companies as these projects move into high gear, we will certainly welcome any ideas about them that you may be willing to share with us.

THE MARKETPLACE OF THE FUTURE

I would like to conclude this survey of what's going on at the New York Stock Exchange by trying to answer a question that I am asked at almost every turn: What kind of New York Stock Exchange do you see down the road?

And while I have no pretensions to clairvoyance, a few relevant observations are possible.

I see an increasingly competitive marketplace in which people and technology combine to assure high-quality markets and to provide efficient, cost-effective service to the American investing public.

I see a marketplace with a broader product line that includes corporate equities, a stronger bond operation, a growing spectrum of financial futures, options, and selected other new financial instruments of demonstrated interest to investors.

I see a marketplace that, whatever its present status as a quasi-public institution, will move still further to seek and reflect in its growth-oriented decision-making, the views, interests and concerns of all its many constituencies.

I see a marketplace that will squarely and successfully meet the challenge of performing with ever-increasing effectiveness its key catalytic role in the capital formation process that is so vital to the continued development and expansion of our private enterprise system.

And, finally, I see a marketplace that, because of its single-minded commitment to quality in every area and detail of its performance, will attract the participation --and merit the confidence-- of the American people.