

Talking Points  
NASDAQ Board Meeting  
September 11, 1996

The last few months have brought about some of the most significant, and difficult events in the history of this market. I would say that is true for the Commission as well. We are pleased that the enforcement action has been settled, and that the months of speculation are behind us, as I'm sure you are. The adoption of the Commission's order handling rules was an event of equal significance, and will have far-reaching consequences. I want to thank this board for your support of the order handling rules. And I want to thank you for your efforts to get to the settlement with the Commission.

I want to make sure that you are aware of two points that I stressed in my remarks to the press that did not make it into the headlines. Nevertheless, they were important. One, in my remarks announcing the enforcement settlement, I praised the caliber and dedication of the new boards of the NASD, and the steps that they have already taken to put the problems of the NASDAQ market behind them. The NASD Boards, including this one, are superbly equipped to take this market into the 21st century.

Second, I said that I believe that the changes that will take place now and in the months ahead will result in the strongest, most innovative, and best-led dealer markets in history. I believe that, and you should too.

The issues raised in the Commissions report are critical to the functioning of your market, and your input into the solutions is vital. I won't dwell on the past today, but I believe that to move forward you have to know where you've been, and where you are today. The settlement has been agreed upon, but a formidable amount of work is ahead to assure that the NASD is in compliance with the terms of the settlement. Not all of that is solely in the province of NASDR or the NASD. In addition, the NASD will be required to take action to implement the Commission's new rules. There is time pressure here. The Commission staff is fully prepared to do whatever it takes to meet the time deadline for implementation of the rules. I am sure NASDAQ is in the same mode. I urge you to support this effort fully, and to work with the inevitable time pressures.

Going forward, we will be addressing the proposed NAQCESS system. The proposal has changed dramatically since it was first announced as a replacement for the SOES system, and promises to change further.

Rarely has an SRO system generated more controversy. In its original form, the system raised many of the issues since identified in the Commission's enforcement action. Further, NAQCESS has received an unprecedented 1400- plus letters of comment so far, as well as congressional and academic scrutiny. Just by way of contrast, the Commission's order handling rules received about 150 comment letters. Much of the NAQCESS comment has been negative. The NASD has shown a willingness to address the concerns of commenters, and the SEC, and I understand that much progress is being made.

But while there is agreement on some of the changes that will be made, there are some issues that have yet to be resolved. We expect they will be resolved.

The process for final approval of any major SRO rule filing requires that the final proposal be filed as an amendment with the Commission, and noticed for additional public comment prior to Commission approval. For that to happen, we need final agreement on the terms of the system. As I said, reports are that that process is moving along quickly.

In addition, the terms of the NASD settlement with the SEC requires development of an audit trail that would, among other things, improve the surveillance of backing away. Assuring that an investor's order can find a firm quote is essential to the design of any order-routing and delivery system, and is especially important today for NASDAQ. Although completion of the new audit trail will be a lengthy process, in the meantime the NASD is required to develop a surveillance plan to monitor backing away in NAQCESS. The Commission will need to be satisfied that NAQCESS will operate in accordance with the requirements of the firm quote rule, and therefore will need to be satisfied with the surveillance plan.

Finally, the Commission staff will need to review the technical specifications and stress testing results; these are important to assure that firms will be able to efficiently interface with NAQCESS, and that NASDAQ will be able to handle the additional traffic generated by NAQCESS.

This may sound like a lengthy and insurmountable process, but there should be no surprises here. This is what we require from any SRO seeking approval of a major new system. I am told that both the NASDAQ staff and the SEC staff are cooperating to complete these tasks on a quick time frame. Your staff will need your support and effort to get this done. I am sure you will give no less.

We all need to approach the coming year with great energy and determination. At stake is the chance to make our great dealer markets better. If we fail, the problems will linger and grow, and the solutions will become more onerous. But we're not going to fail. I've pledged my utmost effort to ensure that this market is better for investors, and for issuers, and as a result, for the securities industry. I am sure that effort will be doubled on your

side of the table.