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THE CHANGING STRUCTURE OF THE FINANCIAL SERVICES INDUSTRY AND THE IMPLICATIONS FOR INTERNATIONAL SECURITIES REGULATION

REMARKS BY AULANA PETERS* AT WASHINGTON AND LEE UNIVERSITY, MARCH 30, 1989

During the past twenty years there has been an enormous amount of competition in the area of financial services. This competition has brought about a considerable change in the financial services industry and in the capital markets. Competition within the separate sectors of the financial services industry, which are generally considered to be securities, banking, and insurance, has resulted in a movement that people have called consolidation or integration which in turn has resulted in the development of megafirms like Citibank and Shearson Lehman Hutton. But even more significant has been the competition across industry lines. On one hand, banks have started to engage in activities that securities firms at one time considered their own private preserve. On the other hand, securities companies have started offering services and products that once one could get only from banks: for example, checking accounts and extensive financing. Unfortunately I cannot take the time to discuss in depth all of the changes involved in the financial services industry. The focus of my remarks, therefore, will be the securities industry. I am hoping that by labeling my remarks as dealing with the financial services industry, and giving you a little dabbling of the industry throughout, I will ensure my credibility with you by acknowledging that there is a broader topic out there, although I cannot deal with that broader topic here today.

The focus of my remarks will be the recent structural changes in the securities industry. I think that it is helpful to label changes as being

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structural because it tends to focus on the fact that such change generally necessitates some sort of adjustment in the regulatory framework applicable to a particular industry.

One of the most significant changes that has occurred in the past ten to twenty years in the United States securities markets is that the market, and the markets throughout the world, have become increasingly and undeniably international. The extent to which capital markets throughout the world have become international is reflected to a considerable degree in the interdependence of world markets. This interdependence was graphically demonstrated by the global proportions of the October 1987 Market Break, which lent new significance to the adage, "When New York sneezes, Tokyo catches cold." Only in this instance, Tokyo caught more than a cold when New York sneezed. My remarks will briefly address the impact of internationalization on the securities market and focus on the regulatory responses that have been and should be developed in light of the structural changes that have occurred.

Preliminarily, I would point out that by assuming that regulatory implications are obvious in these changes, I have already answered the question, "Do the international markets need any regulation?" I have already answered that question, "Yes." Some proponents of the concept of free and unfettered markets would probably suggest that the international markets should be left to develop without any regulatory intervention. On the other hand I believe that judicious regulation of international markets is necessary to ensure integrity and fairness, and to instill and maintain investor confidence in the global marketplace. As we saw in the fall of 1987, without investor confidence we really do not have any marketplace.

Some people think that regulation is an evil, and it may well be, but regulation is a necessary evil in today's markets. In my view, today's markets are much too large, too complex and too diverse to permit them to try to operate without some regulation or some regulatory oversight. Moreover, the players in those markets are too numerous, too disparate and too dispersed to permit them to operate without regulating their conduct.

I am not going to repeat here today the many statistics that I and others have collected to prove or establish the extent to which capital markets have become international throughout the world. I think that the fact is uncontestable, and one we can pass on and accept. These markets may wax and wane a bit, but I think they have become a permanent fixture in the financial services landscape. Although I am not going to burden you with statistics, I am going to burden you a little with some oversimplified, generalized history about how the international markets generally developed.

Approximately 20 or 25 years ago the Securities Exchange Commission (SEC) became aware that there were more and more international transactions occurring. The SEC started trying to accommodate U.S. disclosure regulations to that effect. But issuers, investors, and market professionals at that point started to look beyond their borders for business and investment opportunities. Issuers, including those in the United States, were interested in finding cheap capital. On the other hand, investors were looking for diversity and greater return in their portfolio. These desires to expand opportunities for investment resulted in international transactions and eventually developed into highly sophisticated international markets.

Once the desire was there, all that was necessary to internationalize the markets was a cost-effective way for the market professional to bring together the issuer and the investor. Today's advanced telecommunications and data processing technology have provided accessible and relatively inexpensive links between geographically separated issuers and investors. The speed, efficiency and accuracy with which market information may be transmitted and investment decisions implemented has opened up new worlds of opportunity and has made it easier for issuers and investors to exploit those international opportunities. The crux of the system is access to the markets for the issuer's disclosure so that the investor can make a reasonable investment decision, and regulations affecting investors and issuers and market professionals that will ensure fair and orderly markets.

In more recent times, globalization has not been fueled solely by transactions by institutional and individual investors. Governments have played a role as they embarked on huge privatization programs. The United Kingdom (U.K.) has been the leader in this area, and can count among its privatization efforts four of the largest public stock offerings in history.[1] Moreover, these privatization programs have further internationalized the markets because generally they are so large that they require investment interest beyond their local borders. For example, a significant amount of the United Kingdom's privatization programs were placed in the United States and in countries in continental Europe. Consequently, these privatization programs have swept over to France,[2] Singapore, Malaysia, and Japan.[3] Recently I read an article where one of China's foremost economists was trying to persuade the government of the People's Republic to engage in privatization programs, although I am sure that the Chinese version is going to look different than those versions in the West.

Globalization, just to touch the broader topic ever so slightly, has also caused some interesting phenomena that increase the pace of involvement of United States banks in the securities industry. For example, the Glass-Steagall Act[4] prevents banks from becoming involved in securities business

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1. These were the $12 billion British Petroleum, the $8 billion British Gas, the $5 billion British Telecom, and the $2.3 billion Rolls Royce multinational common stock offerings. *See* Forman, *British Petroleum Trading in London is Subdued as Buy Back Plan Cuts Fears*, Wall St. J., Nov. 2, 1987, at 6, col. 1; Sacher, *Going Private*, FIN. WORLD, Jan. 20, 1987, at 112-116; Feder, *Rolls Soars in Initial Trading*, N.Y. Times, May 21, 1987 at D1, col. 1.

2. *See France Offers Bank Stock*, N.Y. Times, May 8, 1988 at D15, col. 4; Revzin, *France Urges Citizenry to Break With Habit, Become Stockholders*, Wall St. J., Nov. 5, 1986 at 1, col. 4.

3. *See International Corporate Report*, Wall St. J., Aug. 23, 1985 at 19, col. 6 (Singapore Airlines Ltd.); *International Corporate Report*, Wall St. J., Feb. 10, 1987, at 42, col. 3 (Nippon Telegraph & Telephone Corp.); Selby, *Inside the Conrail Deal*, INSTITUTIONAL INVESTOR (Int'l Ed.), Apr. 1987, at 95.

4. Banking Act of 1933 (Glass-Steagall Act), Ch. 89, 48 Stat. 162 (codified in 12 U.S.C.

transactions. Since 1980 the attitude of the banking regulators has undergone a very significant change and their viewpoint is now to liberalize banking regulation so that banks can do pretty much anything that they would care to do within reason, defined by what constitutes safe and sound banking practice. Bank regulators have started eliminating barriers to banks' entry into other areas of endeavor, including the securities industry.[5]

Prior to 1980, however, many of our large banks were developing expertise and background in the securities industry through securities branches that they acquired abroad. Only the United States and Japan have a prohibition against banks being involved in the securities industry. On the Continent, in Great Britain, and in Australia, that prohibition does not exist. The anomolous situation ensued, therefore, where Citibank or Sumatoto could engage in activities overseas in which they could not engage in their own countries.[6] The banking regulators viewed that situation as detrimental to United States banking institutions, and believed that the situation precluded our banks from developing to the size and the presence to enable them to remain competitive in world-wide markets. I think that a lot of the deregulation of the banking industry is motivated in some substantial and significant degree by regulators' desire to ensure that our banking institutions remain competitive with those elsewhere in the world.

The impact of globalization on the various securities marketplaces in countries around the world and on the trading in those markets has been varied but nevertheless significant. As technology rendered offshore markets increasingly more accessible to investors, markets were required to become more competitive in order to maintain and increase their market share of trading volume and listings. Moreover, the New York Stock Exchange must be alert and aware of the potential consequences to the Exchange as a marketplace when someone can just as easily buy General Motors stock on the International Stock Exchange. Markets are reorganizing themselves and streamlining themselves to be competitive in this global market, and the results of these efforts have been fairly dramatic. The results include, for example, electronic and domestic market linkages, as well as internal market reforms.

International electronic trading and quotation linkages have proliferated during the past several years.[7] About five or six years ago, the United States

§§ 24, 33, 34a, 36, 51, 52, 61, 71a, 77, 78, 84, 85, 161, 197a, 221a, 227, 242, 244, 248, 263, 264, 289, 301, 304, 321, 329, 333-338, 347, 348a, 371a-371d, 374a, 375a, 377, 378, 481, 632) [hereinafter Glass-Steagall Act].

5. *See Fed Approves Underwriting Applications of J.P. Morgan*, Citicorp, Bankers Trust, 19 Sec. Reg. & L. Rep. (BNA) 628 (1987); *Fed's Section 20 Decision Stayed*; *More BHC's Win Underwriting Approval*, 19 Sec. Reg. & L. Rep. (BNA) 739; *Fed's Section 20 Orders Upheld, But Market Shares Test Reversed*, 20 Sec. Reg. & L. Rep. (BNA) 225 (1988).

6. *See* Berg, *Citicorp Buys Australian Brokerage*, N.Y. Times, May 6, 1987, at D4, col. 4; Sesit & Herman, *Aubrey G. Lanston & Co. Will be Sold to a Unit of Industrial Bank of Japan*, Wall St. J., Oct. 30, 1986, at 3, col. 2; Sesit, *Industrial Bank of Japan Expands Role to Win Slice of World's Investment Banking Business*, Wall St. J., July 16, 1985, at 36, col. 1.

7. For a discussion of the economics of international market linkages, see Cox &

and Canada started developing electronic exchanges that would permit them to exchange information about stocks traded on their respective exchanges, and permit a trader in Boston to effect a trade in Toronto to a certain extent, and vice versa.[8] There are also quotation linkages that have developed between the National Association of Securities Dealers (NASD) and the International Stock Exchange in London and the Stock Exchange of Singapore.[9] There is also an arrangement between the American Stock Exchange (Amex) and the European Operations Exchange in Amsterdam for the trading of fungible stock index options.[10] This arrangement is not merely an information exchange or a data exchange, or is it simply a link that will permit someone in New York to buy a Dutch option or someone in Amsterdam to buy an American option if it is listed on the Amex, but the option is fungible. For example, if one market is closed and an individual buys Option A in New York but wants to buy Option AA in Amsterdam, that person can buy Option AA by purchasing the New York product. That is a very significant step, and it is a step that I think reflects a perception by the markets as to the degree of sophistication of the investor, what the investor wants to buy, or put another way, what the markets think the investor can be sold.

In addition, the European Community expects to link the stock markets of twelve member states into a continuous trading network by 1992.[11] No one is really quite sure what the overall implications will be for that landmark year, but the Europeans have been working very hard for a long period of time to break down barriers.

Another approach taken by stock exchanges to enhance their competitiveness has been to combine with other domestic markets, and I think that this may have some significance for the markets in the United States. Over the past few years a number of markets in various countries have merged to girder themselves for the increased competition that comes from dealing in a world of global markets. There used to be four stock exchanges in Hong Kong. In 1987 those four merged into a unified exchange with one trading floor, and more importantly, one supervisory body. The same thing

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Michael, *The Market for Markets—Development of International Securities and Commodities Trading*, 36 CATH. U.L. REV. 833 (1987).

8. *See* Securities Exchange Act Release No. 23,075, 51 Fed. Reg. 11,854 (Mar. 28, 1986) (Midwest-Toronto); Securities Exchange Act Release No. 22, 442, 50 Fed. Reg. 39,201 (Sept. 20, 1985) (American-Toronto); Securities Exchange Act Release No. 21,925, 50 Fed. Reg. 14,480 (Apr. 8, 1985) (Boston-Montreal).

9. *See* Securities Exchange Act Release No. 23,158, 51 Fed. Reg. 15,989 (Apr. 21, 1986) (LSE); Securities Exchange Act Release No. 25,457, 53 Fed. Reg. 9156 (Mar. 14, 1988) (Singapore).

10. *See* Securities Exchange Act Release No. 24,831, 52 Fed. Reg. 32,368 (Apr. 14, 1987); Securities Exchange Act Release No. 24,832, 52 Fed. Reg. 32,377 (Apr. 14, 1987).

11. *See* Quinn, *Europeans Tie the Knot*, INSTITUTIONAL INVESTOR, Dec. 1987, at 185. The exchanges of Amsterdam, Athens, Brussels, Copenhagen, Dublin, Frankfurt, Lisbon, London, Luxembourg, Madrid, Milan, and Paris will be participating in the Interbourse Data Information System. *Id.*

happened in Australia, where the exchanges are now linked electronically. The Australians do not have a single trading floor, but all of the exchanges are linked electronically and are managed, administered and regulated as a single entity. Eight German stock exchanges have done the same thing.

The most dramatic reformation to date was the U.K.'s Big Bang in October 1986. Prodded by the British government, the London Stock Exchange, or International Stock Exchange (ISE), unfixed commission rates, abolished the single capacity system prohibiting member firms from acting as both brokers and dealers, and removed restrictions on foreign ownership of member firms.[12] In addition, the exchange merged with the association for the Euromarket houses, thereby creating a unified market for British and international equities.[13]

To facilitate the growth of its marketplace, the ISE implemented an entirely new trading system that allows members to execute trades on the exchange floor and upstairs through a computerized trading system. The ISE also provided for real-time quotations and, for the more actively traded securities, real-time transaction reporting. Within months of implementation of the new trading system, the bulk of the trading took place off the floor. Consequently, the exchange decided to close its trading floor because of lack of use.[14]

Other countries are following Britain's example with their own versions of "Big Bang." Canada and France are implementing structural reforms whose hallmarks will be the opening, over time, of the Toronto Stock Exchange and Paris Bourse to foreign investment firms and domestic and foreign banks.[15] The Paris Bourse also is extending its traditional two-hour trading day and exploring continuous trading.[16] In addition, Spain is planning sweeping structural reforms which should include opening the stock market to banks and foreign brokers and a shift to continuous computerized trading.[17]

United States markets, however, have not been merging, at least not in recent years. The New York Stock Exchange is not talking about merging with the Amex, nor is the Amex talking about merging with the Philadelphia Stock Exchange, but I suspect that we should not be surprised if some linkage comes about within the next ten to twenty years. I think this linkage is going to come about *if* and *as* non-U.S. markets become a real competitive

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12. *See, e.g.*, Verchere, *Flinging Open the Doors of Change*, EUROMONEY, Aug. 1986 (Big Bang Supp.), at 2.

13. *See Way Cleared for Merger of London Exchange*, Wall St. J., Nov. 13, 1986, at 64, col. 6.

14. *See* Almond, COMPUTERS KILL LONDON TRADITION, Wash. Times, Mar. 4, 1987, at 12C.

15. *See* Jordan, *Canadian Financial Services—The New Broom*, 3 Fin. Serv. Reg. (S&P) 177 (1987); Lewis, *Foreigners Will Be Able to Own French Brokers*, N.Y. Times, Mar. 11, 1987, at D1, col. 1.

16. *See* Roth, *Battling for Survival*, Wall St. J., Sept. 29, 1986, § 4, at 32D, col. 1.

17. *See* Bray, *Spain Aims to Computerize Trading, Break Brokers' Monopoly Over Exchange*, Wall St. J., Feb. 8, 1988, at 38D, col. 4.

threat. Presently, although Tokyo is in absolute terms the largest market in the world because of its capitalization, New York remains, I think, the premiere market where the most trades are effected and through which the most capital flows. I do not know if New York will remain the premiere market if the Tokyo market does not have a market break soon, as everyone predicts, or if London and Ireland and the continental markets after 1992 are able to develop into a viable alternative to the New York market.

Presently, however, I believe the national market system that Congress enjoined the Securities and Exchange Commission to facilitate in 1975 has not come about because basically all of the individual markets do not want to "give up their turf." Asking them to link is asking them to establish a national market system. If the outside world forces our markets to link into a single national market in order to compete and attract business, particularly institutional business, we will have achieved the national market system, or at least the forces of competition will have achieved it, where regulatory forces have been struggling with it for more than thirteen years.

All of the developments in other countries, however, have not been ignored by the United States markets. U.S. markets are not oblivious to the pressure from abroad, and, therefore, they are adapting themselves to the new competitive market. U.S. markets are not merging with other stock exchanges, but nevertheless they are making some significant changes. The New York Stock Exchange, for example, has long had a prohibition against brokerage firms, or "upstairs" firms, having an organizational relationship with specialist firms, or "downstairs" brokers. The New York Stock Exchange has decided that changing the rule was very important so that specialist firms who make fair and orderly markets on the exchange floor will have access to the capital needed to compete in today's global markets.[18] Now the vast capital available to the Shearson Lehman Huttons, the Merrill Lynches, and the Sumatoto Banks of the world will be available to specialist firms, who are fairly rich, but do not have as deep a pocket as October 1987 suggested they need.

Globalization also has had a significant effect on securities industry structure. Securities firms are modifying their structure as they position themselves to meet the challenges posed by internationalization. The first step in this process has been the acquisition of additional capital, or at least gaining access to it. From a regulatory standpoint, however, another notable feature of the internationalization of the securities markets has been the dramatic overseas expansion of major securities firms. During the bull market of 1982-1987, U.S. firms established new or significantly enlarged existing branches or affiliates in Europe and Japan.[19] In turn, Japanese and

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18. *See* Securities Exchange Act Release No. 23,768, 51 Fed. Reg. 41,183 (Nov. 13, 1986).

19. *See* Schmerken, *Waiving the Flag Abroad*, WALL ST. COMPUTER REV., Oct. 1987, at 17.

European firms have established footholds in North America.[20] With far flung networks of offices linked by sophisticated telecommunications technology, securities firms have given meaning to the concept of global markets in which firms underwrite and trade securities around the world and around the clock.[21]

Regulators of international securities markets are also intensely aware of the pressures that are put upon the markets and the industry that they regulate, and they also have recognized that these conditions make their regulatory cooperation not just necessary but imperative. Nevertheless, regulators have not developed any kind of comprehensive standards for regulation of the international securities markets. Rather than formulating broad cooperative measures that anticipate potential problems and solve the problems before they occur, regulators have devised fairly narrow and often unilateral responses to specific market regulation issues as they arise.

The exception to this general rule has been the international surveillance and information sharing area. Notwithstanding the prediction by some commentators on the securities scene, developing bilateral agreements in the area of international surveillance and information sharing was very easy. One commentator suggested about ten or twelve years ago that the Securities and Exchange Commission was barking up the wrong tree with all their emphasis on attempting to eliminate and prosecute insider trading. The argument was that insider trading was good for the markets because it, in effect, disseminated information. The other aspect of this argument was that precluding insider trading in the U.S. would just result in more trading in London, Paris, Amsterdam, or Hong Kong.

There are two reasons why that prediction has not occurred: 1) if a person can engage in a safe transaction in New York, he is not likely to execute the transaction in Hong Kong—the additional transaction costs are just not worth it—and 2) beginning in the late 1970s and early 1980s these foreign markets started to outlaw insider trading. Why? Because competition had developed such that they needed to eliminate insider tading for two reasons: to attract the money from abroad, and to prepare the road for expanding their own markets to have the depth that American markets have traditionally enjoyed since 1929-33.

England, France, and Amsterdam have all passed laws against insider trading. The Japanese, to whom the thought of prosecuting someone for trading on exclusive nonpublic confidential information was very bizarre, have passed a law against insider trading as well.

This trend against insider trading ties into the ease with which the Commission developed these bilateral international surveillance and infor-

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20. *See Japan on Wall Street*, Bus. Wk., Sept. 7, 1987, at 82; Laursen, *Can British Banks Survive in the USA?*, Investment Dealers' Dig., June 22, 1987, at 22. That expansion continues unabated. *See* Sesit, *Foreign Firms Are Eager to Capture Bigger Chunck of U.S. Equity Market*, Wall St. J., Feb. 16, 1988, at 51, col. 2.

21. Marion, *Creating A Global Book*, Institutional Investor, Mar. 1987, at 265.

mation agreements, mostly to protect their markets from fraud or the perception of fraud. After four years in Washington I have learned that perception is reality. Consequently, setting up a system whereby people think the markets are safe creates the perception that they are safe and people invest.

Back in 1982, however, the U.S. negotiated the first memorandum of understanding with the Swiss that permitted the U.S. to obtain nonpublic information from banks and securities houses that normally no one could obtain. That memorandum of understanding was an informal agreement. It is now formalized with an understanding between the U.S. government and the Swiss government. In addition, the Swiss have enacted a statute outlawing insider trading. The Swiss agreement was the first of many such agreements that the Commission has negotiated over the past four or five years permitting the U.S. to obtain information from regulators abroad to assist the U.S. in enforcing its own securities laws.

The one obstacle that has created difficulty in the insider trading area is that the U.S. has not had the ability to undertake or implement enforcement procedures or discovery procedures in the United States at the request of a foreign government unless a judicial action was existing or pending either in the U.S. or the foreign country. In other words, if the Commission wants to invoke its subpoena power—force people to come and testify and produce documents—we can do so simply upon the suspicion that there has been a violation of U.S. law. However, if the COB (the SEC in Paris) wants us to investigate a potential violation of their law and they have not initiated a judicial proceeding, the SEC can do so informally and give them whatever information obtained. The SEC cannot subpoena people to testify, and produce documents.

Last year at the SEC's request Congress adopted the Insider Trading Sanctions Act of 1988. The legislation gave the SEC authority to use its official subpoena power simply on the request of a foreign regulator or a foreign government. I believe that this use of subpoena power is going to go a long way towards assisting us in fostering international cooperation and in making sure that we are going to be able to enforce the securities laws internationally, regardless of where the violation occurs.

The SEC has also proposed additional legislation to strengthen its hand in international cooperation and enforcement of securities laws. Specifically, the SEC has proposed the International Securities Enforcement Cooperation Act, which Mr. Dingle and Mr. Markey have introduced into Congress. That act will enhance our ability to obtain evidence from foreign regulators by permitting us to promise them that we can keep the evidence confidential. There is very little that we can keep confidential now because of the Freedom of Information Act (FOIA). The proposed act will permit us to tell a foreign government that we can keep the information they give us confidential and inviolate, except of course that Congress gets the information.

The International Securities Enforcement Cooperation Act would also permit the SEC to sanction securities professionals for violations committed abroad. Presently, an account executive may be barred from practicing in the securities industry or the banking industry in Amsterdam, but he need only go to Madrid. This concern is not hypothetical. "Boiler room" shops move from Salt Lake City to Houston to South Florida to Amsterdam to Madrid, and I think they are on their way to Australia now. They get chased out of one town and move on to another. The interesting aspect of the proposed legislation town and move on to another. The interesting aspect of the proposed legislation is that if someone is barred in the United States, England can say "Do not darken my door. I can rely on the United States bar to refuse you a license to practice." This result may sound awful because of a possible denial of due process, but that usually does not happen. It certainly did not happen during the four years I was at the Commission. Usually the people who are barred have fallen by the wayside at least a half a dozen times before the Commission has enough gumption to say "You're out of the securities industry forever." Permitting the SEC to sanction securities professionals for violations committed abroad, therefore, is something else that will be very helpful in permitting us to enforce the laws internationally and ensure that the laws have international effect.

One other area that I will touch upon is an agreement that deals with the international brokerage houses that the United States negotiated with the regulators in the United Kingdom. Collecting information is one thing, but the brokerage regulation and mutual fund regulation require inspection of branches of Merrill Lynch and E. F. Hutton abroad. The inspection is necessary not only to ensure that these entities are complying with the rules and regulations that govern the operational aspect of their business, but we need to know whether or not these entities are complying with capital adequacy standards.

Under this bilateral agreement between the United States and the United Kingdom a procedure exists that permits us to inspect one another's entities jointly or on behalf of the other, and to inspect those entities in accordance with the rules, regulations and standards applicable to the parent company. For example, if British investigators are inspecting Merrill Lynch in England, the investigators will apply U.S. rules and regulations and U.S. capital adequacy standards to measure Merrill Lynch's conduct, and vice versa if we are investigating a British house. I believe this step is very important because it goes beyond simply handing over information and pieces of paper. These investigations call for cooperative efforts in the day-to-day administration of the regulation. I think that our ability to achieve this kind of agreement with the United Kingdom suggests that my proposal for multilateral agreements as the next step in international securities regulation perhaps has a chance and an opportunity. Indeed, a recent release by the Commission suggests that it may.

The Commission's experience in the past four to five years has amply demonstrated that it is easiest to achieve cooperation, coordination and harmonization in the area of surveillance and information trading. There are, however, other areas where we must be more sensitive to multilateral cooperation, rather than just bilateral cooperation. The Commission has recently issued a policy statement published last Fall in conjunction with the annual meeting of the International Organization of Securities Commissions. This policy statement identifies specific areas of regulatory concern highlighted by the continued and expanded internationalization of the securities markets. Importantly, the statement also sets forth the Commission's principles and goals that are central in its view to achieving a global market system that is both efficient and fair. The policy statement suggests that bilateral agreements should continue to be sought, but that there are occasions in which multilateral agreements would be very important. Generally, multilateral agreements are difficult to achieve because getting five people to agree is always difficult. Dealing one on one is easier. Also, problems of sovereignty exist in bilateral agreements. Is Great Britain going to reduce its rules and regulations to the level that is prevalent in Italy, and is Italy going to reduce their regulations to the level that is prevalent in Chile? That is very difficult to negotiate. Negotiating treaties takes years, as you very well know.

I believe, however, that the current Commission thinks that the time has come, particularly since the Commission has identified certain core areas in which multilateral agreements are really called for if we are to have an effective response. The SEC has identified the need for efficient market structures, for the dissemination of quotation price and volume information, as well as clearance, settlement and payment systems, and also capital adequacy standards. They have also urged development of sound disclosure systems, including adequate accounting principles, auditing standards, and registration and prospectus standards. Also, they have focused on the regulation of abusive sales practices, and the prohibition of fraudulent conduct.

It is interesting that the Commission has focused on clearance, settlement, payment, and price quotation and volume dissemination information. I am going to deal with this aspect of the Commission's focus just briefly. We have already talked about trade practices and unlawful conduct, but in this area I believe we may be able to persuade non-U.S. governments and our own regulators that a multilateral agreement is not threatening to their sovereignty and is very necessary, particularly when considered against the backdrop of the October 1987 market break.

Price quotation and volume information is essential for efficient market operations. The United States has the most advanced electronic system for disseminating such information. Indeed, the SEC rules require this dissemination. You must have that information before you effect a transaction. Currently, we are probably the only market that has this kind of advanced electronic informational system. France is still studying it, but it is not quite there. Great Britain had a system in place, they thought, for Big Bang, but they were having problems. After a year and half, they have not worked out all the problems in their electronic information dissemination system. When you look at what happened in the market break, I think that it is fair to say that one aspect of the market break was that information was not disseminated. People were not sure of what was going on in the market.

If we had international multilateral agreements that require all markets in developed countries to disseminate information, I think that we will go a long way to avoid a problem similar to the one we had in October 1987. Moreover, I think that it should be feasible to persuade nations that they ought to sign an agreement that 1) requires them to automate this kind of information and the dissemination systems, and 2) requires them to standardize the systems.

The second aspect of the Commission's focus is clearance payment and settlement systems. The markets will become much stronger once one knows that one can buy a stock in Madrid, Milan, Amsterdam, or Paris, and know that one has bought it, or that if one sold it, the seller will have money within five days or ten days. Presently, people are confident of such a transaction in the United States, and are reasonably confident if willing to wait two weeks in Great Britain and in France. But other major countries have problems in this regard. Again, international markets will be fostered and the United States' own domestic markets will be safer and sounder if multilateral agreements exist that encourage this type of development to establish standardized settlement periods. At least a range of times (five to fifteen days) establish a framework within which clearance and settlement systems should operate.

I believe that it is important for countries to start pushing for this development now because the October market break demonstrated that financial markets, although they are definitely separate and distinct, are interdependent. What happens in one market is bound to affect what happens in another market. Unlike manufacturing industries and other service industries, financial markets cannot afford to content themselves to seek disparate solutions to common problems, because in doing so they risk calamitous results.

This new approach, therefore, may not be appealing in the short run, but in the long run it is the kind of cooperation that is needed to effectively address the kind of regulatory issues that are most critical to us in these times. Informal bilateral agreements can be good, but we should not be wedded to only one way of achieving cooperative regulatory efforts. Failing to deal with these kinds of regulatory issues on a multilateral basis unfortunately could result in rules and regulations becoming pawns in intermarket competition. I believe that this is something that regulators must focus on and try to prevent. We really do not want different regulations in markets to become the "raison d'etre" for competition for listing and order flow, because that would have potentially deleterious effects. Furthermore, it would be unfortunate if our desire and our need for integrity, fairness and equity in our markets were undermined by any one individual market's desire to attract business at the expense of these goals. Under certain circumstances, I believe that multilateral negotiations may not only be sound policy, but may be practicable. International regulators have been discussing this for awhile, and they have developed a trust of one another that I believe will permit them to move forward if someone is willing to take the first step.

I conclude with the thought that internationalization has had, in my view, a profound and far reaching impact on the world's securities markets. Although manifested in varying ways depending on the ebb and flow of the economic current of our markets, the changes that the internationalization process has caused will not disappear. Because global markets have become a permanent, although everchanging part of the regulatory landscape, however, regulators must be prepared to deal with issues like interdependence, volatility and other factors affecting those markets. Whatever regulatory initiatives are pursued may include a policy of loosening or eliminating restrictions as opposed to or in addition to imposing restrictions. Whatever the initiatives accomplish, they should take into account that the market is not one dimensional. The market can be efficient at times. But the market can also be very inefficient at times. It can be rational, but it is also emotional; it is intuitive, and it acts on knowledge and reacts in ignorance and uncertainty. I believe that all of these attributes should be kept in mind by the regulators when they are formulating any response to the current market problems.