NEWS

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INTRODUCING EDGAR

Remarks to

A Seminar Dealing With the SEC's
New Electronic Information System

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Commissioner
Securities and Exchange Commission
Washington, D. C.

Good afternoon.

It's a pleasure to be here with you today.

I was recently told an apocryphal story about a computer deep within the confines of the Pentagon. This multi-million dollar super computer was to be specially programmed to evaluate interplanetary space travel and to predict the success of a proposed manned-space vehicle that was to complete a round trip voyage between Earth and Venus.

After several days of intense planning, a team of specialists emerged from their respective offices and proceeded with the arduous task of programming the computer. At the completion of the grueling procedure some of the nation's top military advisers gathered to learn of the results. The specialist team, along with the visiting VIPs, sat back and anxiously awaited the computer's decision. Within seconds the computer responded, "yes."

The programmer, sensing the annoyance of the commanders with such a simplistic response to a series of complex and multilayered questions, impatiently entered, "Yes, what?" The computer meekly replied, "Yes, SIR!"

While EDGAR does not incorporate concepts of military protocol and specialized data about space flight, it is nevertheless in the forefront of revolutionizing the methods by which investment decisions are made and particularly the way in which corporate information is collected, processed and disseminated.

Because I'm sympathetic to the fact that you have just spent your entire morning learning the fundamentals of EDGAR, I will discuss the future implications of EDGAR as the first innovative step toward revolutionizing the world markets. Without diminishing EDGAR's importance, the electronic filing, processing and dissemination of corporate disclosure documents is, after all, only one of the technological advances that will inevitably change the securities markets as we now know them. The full use of computerized trading systems and the age of the internationalization of the securities markets are also upon us. As you may know, the Commission has recently published concept releases in both of these areas and still awaits comments on a number of issues concerning the internationalization of the world securities markets.

I.

Let's focus our attention for a moment on the future implications of EDGAR. We find ourselves five years from now standing in front of the Office of Document Control in the main lobby at the SEC. It's nearly eight o'clock in the morning. By the close of the business day, most annual reports will be due, and yet, there's a noticeable calm. What we are witnessing is the conspicuous absence of crowding messengers and knee-high stacks of filings. With a fully operational system, registrants, such as those now in the pilot, will no longer be required to hand carry multiple copies of each filing to the Commission. Instead, with the push of a button, the document residing in the computer at your corporate office, wherever your headquarters may be, will be transferred directly over telephone lines to EDGAR. Even if you decide to make deliveries the old fashioned way, a lightweight magnetic tape or diskette will replace the reams of paper you would previously have had to carry.

Once filed, registrants and the Commission staff will be able to communicate electronically, thereby reducing the time it takes to complete the review process. Clearly, we can expect the filing, processing and dissemination of corporate disclosure information to be handled expediently and with considerably less frustration.

It is clear that the elimination of hardcopy delivery of documents to the Commission will reduce processing costs for registrants. Since the review process will take place at computer work stations, with immediate access to filings and reference to external data bases, the introduction of EDGAR will result in an increase of Commission staff productivity and a net cost savings to the Commission.

A less obvious measure of EDGAR's success will probably be its effect on investment decision-making when investors, securities analysts and the public have immediate and equal access to corporate disclosure documents. The availability of such information is especially critical when mergers or takeover battles are contemplated because new filings can take place on a daily basis. With access to disclosure documents on home and office computers, investors and analysts alike will be able to collect data to prepare a comparative analysis of investment alternatives in a matter of minutes. Such sophisticated financial analysis will no longer be the exclusive province of the institutional or other professional investor.

Finally, with EDGAR, information will be as readily available for thinly traded stocks as it is for the larger companies. This could encourage analysts and market-makers to deal in some of the less widely followed companies and thereby improve the market for those securities.

As some of you may be aware, the Democratic members of the House Subcommittee on Oversight and Investigations of the Committee on Energy and Commerce recently held a day of hearings concerning EDGAR. Questions were raised relating to certain contracting practices, the analytical capabilities of the system and the financing of the operational system. The Commission continues to be pleased with progress to date on the pilot. The project is, in fact, on schedule, and, as you heard this morning, producing benefits for registrants and the Commission. None of the Subcommittee's concerns addressed the overwhelming need to provide the securities industry and the investing public with instantaneous access to corporate information in disclosure documents, to allow companies to electronically transmit their required filings or to enable the Commission staff to analyze and process such filings in a more timely and efficient manner. The Subcommittee agreed with the concept of the overall system and it continues to endorse the basic concepts inherent in the EDGAR pilot. This is so because EDGAR continues to project an innovative view into the future delivery of corporate information and its dissemination to investors.

II.

Let's turn our attention for a few minutes to the topic of the trading of securities through personal computers. Home brokerage systems are currently being marketed to provide an electronic conduit between an individual sitting in front of his or her personal computer and market information systems. A revolutionary advantage afforded the investor who uses a micro-computer to access trading and market information is the ability to conveniently and efficiently manage investments after normal working hours. It will soon become commonplace for an investor to access a data base, review closing prices, analyze and research information, make an investment decision and leave instructions for the broker-dealer to execute an order at the opening of the market the next morning.

It has been said that the individual investor has shied away from the stock market in recent years, due in large part to a perception that the institutional and other professional investors are at an informational advantage. As EDGAR and the home brokerage system become fully operational, non-securities professionals will be encouraged to return to the market place.

As indicated, the first implementation of such a system would allow investors to place orders electronically with their broker-dealer by means of a personal computer. This would eliminate the need for a telephone call and would help to reduce the time delays and frustrations associated with busy signals and waiting for return calls. Instead of using telephone lines for the usual voice communication, the individual investor would use a computer modem connection to transform a phone line into a carrier of computer communication. The modem, for those of you who do not know, is a device that translates the computer signal into one that can be transmitted across telephone lines. Once the buy or sell signal is received, the broker-dealer, in turn, physically rewrites the order and proceeds to execute the transaction.

A future modification of this system would allow orders to be routed directly from your personal computer to automated order routing and execution systems. In this case, the investor could conceivably contact the appropriate securities market directly without the physical intervention of a broker-dealer. Keep in mind that the company that endeavors to provide securities information services, and transmits orders between investors and broker-dealers, may itself be deemed to be a broker-dealer required to register with the Commission under Section 15(a) of the Exchange Act. This would be particularly true where the company receives transaction based remuneration as compensation for its services.

While the Commission takes the position that home brokerage systems will prove to benefit investors through increased efficiency of the order entry and execution process, it has identified several issues concerning the application of existing regulatory requirements to the emerging home brokerage systems. In a release published last fall, the Commission noted that home brokerage systems present three specific areas of concern: (1) investor use of non-current market information for trading decisions; (2) the surveillance of such trading activity; and (3) the suitability of customer trades.

The first issue, that of investor use of non-current market information, arises because the investor will be given the option of subscribing to either delayed last sale information, at no additional charge, or to current last sale information for a fee. Because most investors will probably opt for the less expensive delayed last sale information, the investor will run the risk of placing an order without the advantage of being able to detect price swings that could occur in a security during the period of delay.

While the Commission believes that the securities industry, in consultation with the Commission, should initiate action in this area, it did suggest several specific safeguards in its release. One such safeguard would be to program the home brokerage systems to identify trades that reflect a significant change in the delayed and current price. The system could be further programmed to flag orders where there is a significant percentage differential between the delayed and current price, and to withhold such orders from automatic execution. Another alternative safeguard would be to have the subscribing entity restrict use of the home brokerage system, during market-hour trading, to those subscribers who use the current information capacity.

The next issue of concern to the Commission is that of surveillance of customer trading. Because the use of home brokerage systems would, by its very nature, reduce the amount of direct contact that would take place between investors and their broker-dealers, certain existing rules, promulgated by the SEC, the NASD and the NYSE would take on particular importance. Those rules, requiring a broker-dealer or an associated person of a broker-dealer to retain books and records and to remain familiar with the customer as well as the customer's trading activities, will have to be followed with more scrutiny in the future.

Finally, with respect to investor qualifications and suitability, the Commission urged broker-dealers to exhibit a high degree of care in making determinations that concern an investor's financial qualifications and his or her suitability for large and high-risk investments. Although a broker-dealer's attention to customer suitability is always at issue, it becomes especially significant in the home brokerage area where the system provides the investors with a greater amount of flexibility in trading.

The Commission further warned that if broker-dealers provide investors with research and analysis, which is tantamount to recommending individual securities, the broker-dealer may find itself subject to the regulatory standards regarding the suitability of recommendations of securities if such orders are executed through the home brokerage system.

In response to the proliferation of the home brokerage market, the Commission's Division of Market Regulation continues to monitor the area closely. While the Commission generally supports the development of these systems, which purport to offer a more efficient order-entry and execution operation, it nevertheless remains cautious as it attempts to apply the existing regulatory standards to a growing market.

III.

As I indicated earlier in this speech, the internationalization of the free world's securities markets can no longer be viewed as a futuristic concept. A global market for corporate securities that would trade on a twenty-four hour basis is fast approaching. In its attempt to prepare for the inevitable, the Commission has recently published two releases for comment concerning suggested methods of disclosure and distribution for multinational offerings by non-governmental issuers and the internationalization of the world securities markets, respectively.

In the first release, the Commission suggested two conceptual approaches intended to harmonize disclosure and distribution practices for multinational offerings by non-governmental issuers in the United States, the United Kingdom and Canada. In one approach, referred to as the reciprocal approach, the three participating countries would agree to accept a prospectus that is both accepted in the issuer's domicile and that satisfies designated standards in each participating country. The common prospectus approach, on the other hand, would require that a common prospectus be filed with each country's respective securities administrators simultaneously. Using the common prospectus approach, the disclosure standards would be uniform for all participating countries.

The intricacies of the various concepts and the advantages and disadvantages inherent in each proposal are beyond the scope of this discussion. I do think, however, that it is important to recognize that, by its actions, the Commission has taken an active role in initiating an international dialogue and in attempting to use foresight to harmonize what it sees as a profound challenge in the international marketplace.

While we can only speculate as to the future implications that international trading will have on existing markets, the increasing tendency for securities to be traded internationally makes such accommodations as extended trading hours and international market linkages a near certainty.

As you may know, the Commission has recently approved trading links between the Boston Stock Exchange and the Montreal Stock Exchange. This allows specialists on the Montreal Exchange to send certain orders of Canadian national issues, which are also listed in the United States, to the Boston Stock Exchange for execution by one of its specialists. The Commission has also approved a second phase of the linkage which will expand the list of securities eligible to trade to include designated United States-listed securities available through the Intermarket Trading System. This phase is expected to become operational sometime this summer.

The most sophisticated linkage, to date, is between the Chicago Mercantile Exchange and the Singapore International Monetary Exchange. This linkage permits fungible Eurodollar and Deutsche mark futures contracts to be traded on both exchanges. While still in the proposed stage, a similar link may emerge between the Commodities Exchange, Inc. and the Sydney Futures Exchange, Ltd. In addition, representatives of the Hong Kong and Philadelphia Stock Exchanges have had preliminary discussions as to a possible linkage for foreign currency in either options or futures.

Other foreseeable changes include: (1) the introduction of futures on foreign stock indices in the United States; (2) extensive linkage of market information systems between and among European Exchanges -- such as our Intermarket Trading System that links the participating exchange floors and the OTC market for multiply-traded listed securities; and (3) linkages between the Toronto Stock Exchange and the American Stock Exchange. The Amex, in fact, has recently filed a formal proposal with the Commission for such a linkage.

As the global market for the trading of securities continues to shrink, the idea of implementing a twenty-four hour trading mechanism to accommodate the interests of foreign or United States clients wishing to trade outside the normal business hours becomes increasingly more viable.

CONCLUSION

In closing, I want to emphasize the need for regulators, professional members of the securities industry and the investing public to work together in a cooperative effort to help shape the burgeoning marketplace. As we grapple to understand and anticipate the many changes that are taking place in the securities industry, I'm reminded of the words of William Baker, a celebrated high-tech entrepreneur, who said -- "I've seen the future -- and it computes!"

Thank you.

Now, I would be happy to respond to any questions that you might have.