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News Release

Remarks of

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SECURITIES MARKETS IN THE AGE OF GLOBAL COMPETITION

The views expressed herein are those of Chairman Ruder and do not necessarily reflect those of the Commission, other Commissioners, or the staff.

Securities Markets in the Age of Global Competition

This Presidential Leadership Summit offers an opportunity to evaluate the role which our securities industry and our securities regulators will play in an era of global financial market competition. I am pleased and honored to have the opportunity to offer some thoughts about the future.

International markets for securities have grown tremendously in recent years. The world's securities markets have become increasingly automated and linked with each other. The market break last October dramatically demonstrated the degree of this linkage. Never before have events in one market so dramatically affected other world markets.

The growth of foreign markets has presented the U.S. securities markets with new competitive challenges, as investors worldwide begin to enjoy an increased ability to seek the best investment opportunities. Competition for investment in equities will surely increase during the next few years, with continued growth of foreign markets, such as those in Japan and Great Britain, and with the projected arrival in 1992 of a unified capital market in the European Community.

The United States capital markets continue to be the best in the world, but they must be evaluated in a changing environment, both in the U.S. and worldwide. Four developments in particular must be evaluated as they contribute to changes in our equity markets.

First, our capital markets are increasingly dominated by institutions. Today, institutions own about 45% of the corporations actively traded in our markets, and institutional trading accounts for more than 70% of market volume. In many cases, institutional portfolios are so large that investment decisions are based upon perceived developments in the economy as a whole rather than upon decisions regarding the value of individual companies.

Second, this institutional market has facilitated growth of trading in representative market portfolios. The most active portfolio trading in the futures market is in the Standard & Poor's 500 Index; and, in the options market, it is in the Standard & Poor's 100 Index. On the New York Stock Exchange, portfolio trading is accomplished by using that exchange's automated trading system, called DOT. The development of portfolio trading has resulted in greater volatility and in greater compression of market movements. A market accustomed to relatively slow changes in total valuation, based upon trading in individual stocks, risks being shocked by sudden and volatile market movements such as occurred in October of 1987.

Third, our markets have witnessed and are witnessing an explosion in automation. At present we have excellent automated facilities for reporting of stock price quotations and last sale information, for routing transactions to various markets, for transaction execution, and for clearance, settlement, and payments. These automated facilities permit excellent information transmission and fast execution capability. The ability of these systems to withstand stress was severely tested in October of 1987, and substantial system improvements have been put in place since that time.

Fourth, we continue to witness dishonest activity in our markets by market professionals and others.

These developments in the United States markets demand constant regulatory attention. We need to continue our efforts to promote fairness and honesty. We need to guard against unusual market developments which may strain our automated systems. We need to seek a better understanding of the effect of institutional trading and derivative instrument trading on our markets.

A related development is that our brokerage and banking communities are both becoming active participants in overseas markets, particularly in Japan and Great Britain. At the same time, the presence of foreigners, particularly the Japanese, continues to increase in our securities industry.

Of course other markets are developing rapidly, and deserve our close attention.

The Tokyo Stock Exchange has emerged as a major world market, although it does not yet compete strongly with our markets for trading in U.S. securities.

Likewise, the International Stock Exchange in London, although a major world exchange, is not yet a market for trading a significant volume of shares of U.S. companies.

December 31, 1992, is the deadline set by the European Community for achieving an internal market for the free movement of capital and financial services. In the financial services area, the EC is seeking to eliminate all barriers in banking, insurance, and securities by allowing institutions authorized in one member state to conduct most kinds of business in other EC states. Although a unified EC equities market does not yet exist, the year 1992 may mark the creation of another major competitor.

The fact that Japan, Great Britain, and the European Community do not yet compete in substantial volume in trading of U.S. securities is not a cause for complacency. These and other foreign markets are expanding rapidly, and competition with these markets will continue to increase. Thus, internationalization of markets will require increasing attention in the coming years.

Internationalization presents the world's securities regulators with numerous challenges. In anticipation of a rapidly developing international securities market, I believe the Securities and Exchange Commission must play a leadership role. I believe that foreign regulators seeking to establish viable markets should be encouraged to consider the following regulatory principles:

(1) Sound standards for disclosure, including mutually agreeable auditing and accounting standards;

(2) Promotion of market fairness, including prohibitions against insider trading, market manipulation, and misrepresentations to the market place;

(3) The widespread availability of quotation and price information;

(4) Efficient and compatible national and international clearance and settlement systems;

(5) Broker-dealer registration qualifications and conduct requirements designed to promote integrity and honesty in the profession;

(6) Improvement of capital adequacy standards in order to provide greater stability and liquidity for national and international markets; and

(7) Establishment of international surveillance and enforcement agreements.

Some commentators in the past have expressed fears that increased competition among world securities markets will result in a deregulatory "race to the bottom" between regulators of those markets. The theory behind this fear is that less regulation in a given country's markets will invite increased capital flows into those markets. In contrast, I believe that investors will seek out markets that they perceive as fair and honest. Regulation must be adequate to give investors the confidence to invest and participate in the markets involved. Accordingly, I believe that enlightened regulation, balancing the goal of investor protection with the need to be responsive to realities of the marketplace, is the formula for success. If we adhere to these principles and continue to urge their adoption by others, I am confident our markets will fare well in the face of global competition.