OPENING STATEMENT OF CHAIRMAN ARTHUR LEVITT

S.E.C. OPEN MEETING, OCTOBER 6, 1993

This is an open meeting of the Securities and Exchange Commission. There are three items on the agenda this morning. The first is consideration of conditional exemptions from certain trading practice rules to facilitate securities distributions in the U.S. for very highly capitalized German issuers. The second is a rule proposal to enhance disclosure of payment for order flow practices. The third is adoption of a final rule to shorten from five business days to three the standard settlement cycle for securities transactions.

Each of these proposals represents the SEC's constant adaptation to the changes in our dynamic capital markets. Many factors have brought these changes, most notably the increasing internationalization of our world economy, the increasing volume of securities transactions, broker-dealer practices to attract that transaction volume, and greater volatility with the increased risks it brings to the clearance and settlement process.

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On the first item, I would like to add a brief personal note. Yesterday, I stood with Edzard Reuter, Chairman of Daimler-Benz, at the inauguration of Daimler's listing on the New York Stock Exchange. It was a remarkable moment, the culmination of years of hard work by both the company and the S.E.C.

My highest personal priorities as Chairman are to ensure the continued preeminence of American markets and to enhance consumer confidence in their integrity and stability. To accomplish those goals, we must continue to respond flexibly and creatively to specific problems arising from the differences in foreign practices and laws -- never losing sight that our fundamental obligation is to protect American investors and the American markets through full disclosure and market transparency.

Today's proposal brings us closer to those goals. The Division of Market Regulation recommends that we authorize exemptions from the international application of the trading rules, making it easier for actively-traded German securities to be distributed in the United States.

The exemptions would permit otherwise-restricted transactions in Germany during U.S. distributions of "blue chip" German securities. Under certain circumstances, the transactions would remain subject to conditions intended to minimize the risk of manipulative influences. They include terms and conditions relating to disclosure, notice, recordkeeping and record production. Today's proposal is a logical extension of prior exemptions in the international arena.

While these prophylactic trading rules would not apply in Germany, information regarding trading in Germany would be available to the Commission. And, of course, the applicability of the general anti-fraud and anti-manipulation provisions of the federal securities laws would remain unchanged.

The Division's recommendation reflects the new realities of globalized markets, applying our traditional standards in such a way that investors will be protected while foreign issuers will continue to be drawn to the vibrant U.S. markets.

Brandon Becker will describe the details of the staff's proposal.

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SECOND ITEM

The second item for the Commission's consideration is whether to publish a notice of proposed rulemaking addressing industry payment for order flow practices. Payment for order flow is the practice of market makers or exchange specialists compensating brokerage firms for directing customer orders to them for execution. This practice has generated much debate and controversy within the securities industry regarding the potential benefits and harm to public investors. Today's proposal is designed to begin the resolution process by offering a concrete regulatory proposal and possible alternatives to that proposal for public consideration.

The practice of payment for order flow is common in the over-the-counter-market, and the payment of cash or its monetary equivalent in the listed market is also widespread. Estimates indicate that between 15% and 20% of the order flow in listed stocks is routed pursuant to cash-based payment arrangements. Generally, firms that have payment for order flow arrangements with other firms pay a small fee, usually between one and two cents per share, for retail orders routed to them.

Brandon Becker will describe the details of the staff's proposal.

STATEMENT OF CHAIRMAN ARTHUR LEVITT

OPEN COMMISSION MEETING, OCTOBER 6, 1993

THIRD ITEM

The third item before the Commission is consideration of a rule shortening the settlement cycle for securities transactions. This proposal recognizes the reality of the proposition that time equals risk throughout our capital markets. And as volume and volatility increase, so does risk.

As we discovered in October of 1987, the organizations that clear and settle securities transactions are vulnerable to sudden and unexpected market developments. We also learned that we need to strengthen clearance and settlement in U.S. financial markets. Both the Group of Thirty and the Bachmann Task Force have recommended that the current settlement cycle be reduced from five business days after trade date to three business days to accomplish this goal. The Bachmann Task Force's conclusion has been the impetus for the rule the Commission is considering today.

Although settlement time frames have historically been set by marketplace rules, the Commission today is taking a leadership role. We believe, though, that the deferred effective date sets an industry deadline but gives firms the opportunity to adapt to the new timeframe in a way that suits their individual needs. In today's markets, the ever increasing volume of transactions mandates that the Commission take every practicable measure to reduce the risk of trades that do not settle. This rule represents an important step in reducing risk in our markets and making the markets safer for all participants.

Brandon Becker will describe the details of the staff's proposal.

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