REMARKS OF
ACTING CHAIRMAN MARY L. SCHAPIRO*
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

AT THE RE-DEDICATION OF
THE CHICAGO STOCK EXCHANGE

CHICAGO, ILLINOIS

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*The views expressed herein are those of Acting Chairman Schapiro and do not necessarily represent those of the Commission, other Commissioners or the staff.

U.S. Securities and Exchange Commission
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Good morning and thank you for inviting me to speak here on this important occasion. I am honored to be a part of the ceremony for the re-dedication of the Chicago Stock Exchange.

The Exchange has been making a valuable contribution to this nation's capital markets since it first opened for trading in 1882. Through mergers with the stock exchanges of St. Louis, Cleveland, Minneapolis-St. Paul and, later, New Orleans, and with the support and encouragement of the business community in the Midwest, the Exchange quickly became one of the region's dominant financial players. In 1949, to reflect this growing regional influence and focus, the "Midwest Stock Exchange" was born.

The Exchange has prospered over the years and, today, its activities are national, even international, in scope. Your accomplishments are illustrated by the fact that we are here to re-dedicate the <u>second</u> largest stock exchange in the United States in terms of total dollar volume, and the eleventh largest stock exchange in the world.

In addition to its success in attracting customers and providing them with the best possible execution, the Exchange is widely recognized as a leader in developing innovative technology. This innovation extends from the Floor, where the Exchange has developed automated order routing and execution systems, to world markets, where its technology powers the trading systems of stock exchanges from Amsterdam to Thailand. The Exchange also has participated in the creation of a global capital market through the establishment of clearing links with foreign exchanges. But most importantly, we should pay tribute to the leadership role of the regional exchanges, such as the Midwest, in fostering a vigorous competitive environment which has nurtured innovation, liquidity and service to the benefit of U.S. issuers and investors.

I commend you for your past achievements and expect that the Chicago Stock Exchange will continue to be successful for many, many years to come. Today's name change is symbolic of the Exchange's growth from a regional force to an international one. And, like major exchanges around the world, the name of the Exchange now reflects the city where it is located. With this re-dedication, the Chicago Stock Exchange clearly assumes its place among the institutions which have given rise to this city's rich heritage, a heritage of financial innovation, new product development, and unlimited potential.

In looking to this future we, of course, must recognize that the U.S. equity markets have undergone dramatic changes. New developments such as the growth in trading volume, advances in trading technology, increased prominence of institutional investors, introduction of derivative products and related trading strategies, and globalization of the securities markets all have expanded exponentially. On the one hand, these developments have resulted in significant cost savings, convenience and a variety of new products for the investing public; the organized equity markets have exhibited innovation, flexibility and keen competitive drive in accommodating the markets' changing structure and practices. On the other hand, these developments raise important regulatory questions involving market transparency, liquidity, efficiency, domestic and international competition, and the proper allocation of regulatory and self-regulatory responsibilities.

To address such issues, the SEC is engaged in a study of the structure of the U.S. equity markets and the regulatory framework in which they operate. This study, known as Market 2000, is a careful look at the technological and competitive evolution of our markets and at how current market structure affects the role of the Commission and the self-regulatory organizations in ensuring the fairness, efficiency and competitiveness of those markets. Our goal is to ensure that US equity markets remain vibrant and economically efficient, and that the choices we make as regulators preserve the contributions of alternative systems that may provide competition, innovation and cost reduction. We are looking carefully at what our role should be in the 21st century and of course, we are examining many discrete issues.

In particular, Market 2000 will cover various topics of special interest to you and to other market participants, including payment for order flow. As you know and have felt very directly here, there has been a substantial increase in the number and size of orders sent to "third market" dealers. The third market firms often attract business, as well as controversy, by paying broker-dealers a penny or two per share for each order routed to them.

I can assure you that the study takes seriously the exchanges' concerns that payment for order flow may cause broker-dealers to route customer orders to markets or dealers offering inferior prices.

The Commission intends to resolve the issue in a manner that maintains an open field for competition while ensuring that customers are being treated fairly under these arrangements. And it is our intention to resolve this particular issue very soon.

Market 2000 also will examine the more general topic of market fragmentation. As you know, there are an increasing variety of markets competing for volume in the same securities. In addition to the New York markets and the five other exchanges, today's equity markets also include over-the-counter trading of listed and OTC stocks, proprietary electronic trading systems, fourth market trading and overseas trading of U.S. stocks.

Some contend that the U.S. markets have become so fragmented that liquidity has been drained away from the primary markets. In contrast, others believe that segmented markets provide variety, efficiency, innovation and competition. In light of the wide range of opinions about market fragmentation, Market 2000 will examine how to facilitate competition and accommodate technological innovation, without impairing price discovery or best execution of customers' orders.

A related topic covered by Market 2000 is the role and regulation of proprietary trading systems. Such systems represent one of the more recent challenges to the established markets; they are computerized trading systems operated by private, for-profit entities and used primarily by institutional investors.

While the exchanges are concerned that proprietary trading systems are really stock exchanges and should have the same regulatory requirements, the systems' operators assert that they are not membership organizations and serve different market functions. In their opinion, a proprietary trading system is merely a technologically improved version of a broker and, therefore, should be regulated the same as a broker-dealer, no more and no less.

In 1989, the Commission proposed a rule that would provide a scheme of regulation for proprietary trading systems that would strengthen the Commission's oversight of broker-dealers operating trading systems. Market 2000 will examine whether that still represents the proper approach, especially as technology makes it more feasible for these systems to proliferate. As a personal matter, I believe proprietary trading systems are not adequately overseen by the Commission at this time.

In conclusion, the Market 2000 study will attempt to address several important and serious market structure issues that are of interest to the exchanges. At the moment, there are starkly conflicting views about how the Commission should respond to certain structural changes in the U.S. equity markets, such as payment for order flow, market fragmentation and proprietary trading systems. However the Market 2000 issues are ultimately resolved, it will be the leadership of market participants such as the Chicago Stock Exchange that will determine the health and vitality of our markets.

On behalf of the Commission, I am very pleased that the Chicago Stock Exchange is as committed to moving our markets toward the twenty-first century as we are. I have had the pleasure of working with your new President, Homer Livingston, and I feel confident that the Chicago Stock Exchange will uphold the tradition and excellence of Chicago as a world financial center. Thank you again for the opportunity to speak here today on this historic occasion.