

ADDRESS BY
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SECURITIES & EXCHANGE COMMISSION

NASDAQ

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For thirty-five years, twenty six as a member of the staff, a Commissioner, and as Chairman of the SEC, I have been an interested (if not dispassionate) observer of the evolution of the securities industry. For much of that time I have been a nagging voice urging industry reforms and improvements. Today I am pleased to say my role is a little different. Today I would like to congratulate Dick Walbert "Stretch" Gardiner, Phil Pearce and their associates for their dedicated and persistent efforts which made possible this meeting today which has been called to announce a new development, one that reflects an important step in the coming of age of the over the counter market.

Now that I've thrown my bouquets, I will revert to character. It is important to stress that the NASDAQ can be viewed only as a first step albeit a significant one in bringing long needed automation to the over-the-counter markets. For some time I have expressed the view that automation is one of the important roads, if not the most important, to the continued growth and viability of the over-the-counter markets.

The securities industry's problems have become uncomfortably visible in recent times, as its largely antiquated machinery has strained to keep pace with the growing volume of transactions. The Commission, the industry and the self-regulatory bodies have been searching for solutions to the serious problems brought on by the back-office logjams and the extraordinary level of "fails". As you are all aware, a number of steps have been taken to help alleviate these problems. But these are merely expedients intended to provide short term relief. Long-term solutions must include, at least, an automated national stock clearance system. And the time for action is now. (It really was yesterday.) We cannot allow a reluctant few to impede the effective implementation of automated systems capable of handling today's extraordinary volume of business and tomorrow's greater volume.

I think it is widely recognized now that change is long past due. I recall that when Special Study of the Securities Markets recommended the change-over from arbitrary "quotations" to inter-dealer quotations in the newspapers (at the same time

incidentally, that the Study also recommended prompt and vigorous movement toward automation), there were many who thought that such steps would have dire consequences. But after the NASD decided to try inter-dealer quotations in its national list and later studied the effects of this modification, it was found that there was no material damage to the marketplace and to those engaged in it. Indeed, there has been substantial improvement in business. Issuers of the securities involved have long supported the NASD's action. While this action was important, it was but a small -- a very small-- step in meeting the real needs of those in the securities industry as well as the needs of the investing public.

The availability of current and accurate quotations for over-the-counter securities has long been a major area of concern. The dramatically increasing volume of transactions in the past few years has served only to exacerbate this problem. We have heard reports of traders at certain market-making firms pulling the wires from their switchboards to avoid the back-up of calls for quotations. I have heard that the unprecedented volume of business has, at times, led some retail firms to forego "shopping the market" for the best execution for their customers, at least in part because they were unable to reach competing market makers. While most firms try to do their job properly, there are enough of these situations to demonstrate the importance and urgency of this problem. Hopefully, systems such as NASDAQ will serve to ameliorate, if not obviate it. In any event, manufacturers of equipment and those engaged in developing communication systems will no doubt provide an incentive for improvement of NASDAQ or any other system developed.

Unfortunately, we must accept some bitter with the sweet. Thus, the problem of prompt availability of reliable over-the-counter quotations -- the reason we are all here today -- is intimately connected with the back-office problem. The industry cannot realize the potential of computer technology as envisioned by the NASDAQ system, unless at the same time, it devises and implements automated procedures to speed up the handling of the back office work flowing from the current, and the anticipated increased, volume of orders. Obviously, increasing the input of orders, through automated procedures without the machinery and the procedures necessary to increase correspondingly the output of completed transactions, could have very serious consequences.

With that proviso, I believe the use of computers to provide important market information can be of immense benefit to the public and of course, to the industry. Systems designed to bring current and reliable quotations to securities firms and their customers are badly needed. Traders must be able to ascertain more quickly the identity and real-time quotations of dealers who are making a market for a given security. Market makers in turn need to broadcast their markets, modify their quotations when necessary more rapidly, and keep abreast of changing market conditions. Realization of these objectives should better and more orderly markets. We therefore applaud the efforts of all who, like the NASD, are seeking to provide brokers and dealers with automated quotation systems adequate to meet these pressing needs.

NASDAQ should have other significant benefits. It will allow the NASD, through automated gathering of input data, including both price quotations and volume information, to oversee the over-the-counter markets and insure their integrity in a manner not now possible. As you know, the SEC has for some time been watching over-the-counter activity on a selective basis on its own computer. While our techniques have not been fully developed, we nevertheless have been able to provide a measure of protection to investors that heretofore had been virtually impossible due to budgetary and manpower limitations.

The Commission yesterday took action to permit effectiveness of requisite rule changes adopted by the NASD to establish and govern the operations of the NASDAQ system. The Commission also adopted, under its own rule-making power, appropriate guidelines and procedures to assure that the system's administration meets applicable statutory standards.

As I have elsewhere noted, growing volume and public and institutional participation in the markets have contributed to many problems facing the industry today. The industry has only begun to tap the possibilities of modern technology as a tool for coping with important aspects of these problems. The Commission has great interest in these developments, and you can be assured of our continuing support for your ultimate objectives.

We may, however, exhibit some impatience with the seeming slow progress in solving recognized industry problems.

Perhaps the present predicament of the industry will provide the necessary incentive. I am hopeful that the success of this first step will encourage industry to focus fully on the role of automation, and employ the ingenuity and resources available to it to take other swift and effective steps to meet and to overcome recognized problems.