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BUREAU OF
ECONOMIC
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summer 1975

Regional Stock Exchanges in a Central
Market System



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*Relation of the National Bureau Directors to
Publications Reporting Conference Proceedings*

Since the present volume is a record of conference proceedings, it has been exempted from the rules governing submission of manuscripts to, and critical review by, the Board of Directors of the National Bureau.

*(Resolution adopted July 6, 1948,
as revised November 21, 1949,
and April 20, 1968)*

Editor's Overview

Our objective is to see a strong central market system created to which all investors have access, in which all qualified broker-dealers and existing market institutions may participate in accordance with their respective capabilities, and which is controlled not only by appropriate regulation but also by the forces of competition.

*Institutional Investor Study Report of the
Securities and Exchange Commission*

Vol. 2, No. 3

On November 21 and 22, 1974, the National Bureau of Economic Research, in cooperation with the UCLA Graduate School of Management Financial Institutions Program, the Norton Simon Inc. Foundation on the Business-Government Relationship, and the Pacific Stock Exchange, cosponsored a symposium on regional stock exchanges in a central market system. The symposium was held in Los Angeles at the UCLA Graduate School of Management.

Structural changes of fundamental importance are generally recognized as being under way in Wall Street. Pressures for these changes are traced by most observers of the marketplace to the growing importance of institutional investors in corporate stock [Raymond W. Goldsmith, ed., *Institutional Investors and Corporate Stock—A Background Study* (New York: NBER, 1973); Originally published as *Institutional Investor Study Report of the Securities and Exchange Commission*, Supplementary Volume 1, Pt. 6, 1971], advances in computer and communications technology, and perceived failures by regulatory and self-regulatory bodies during and since the late 1960s to adapt to those changes.

The objective of legislative and regulatory efforts to obtain structural changes in the stock market is expressed succinctly in the often quoted epigraph which appears at the beginning of this overview and provides a theme for the symposium. The idea of a central market system was first taken up by the Securities and Exchange Commission in the *Institutional Investor Study Report*. It has since been developed further by the SEC, by other government bodies, and by Congress in the Securities Acts Amendments of 1975 (Public Law 94-29, June 4, 1975). Its essential elements are as follows:

1. Elimination of fixed minimum brokerage commission rates on transactions effected on national securities exchanges (as of May 1, 1975);
2. Implementation of a composite tape for reporting transactions in exchange-listed securities wherever executed, whether on the New York Stock Exchange, a regional stock exchange, or over the counter in the third market (June 16, 1975);
3. Eventual development of a composite quotation system for disseminating on a real-time basis to all market participants bid-asked quotations by stock exchange specialists and other market makers in exchange-listed securities;

4. Development of a national system for clearing and settling securities transactions; and
5. Elimination of rules by regulatory and self-regulatory organizations that tend artificially to separate one market center from another and restrict access by various groups of market participants to particular portions of the overall market system.

The symposium's purpose was to review the status at a particular time of legislative and regulatory efforts to facilitate the creation of such a national, central market system, and to focus on the likely impact of these efforts on both the near-term and longer-term viability of regional market centers and especially regional stock exchanges. Most attention during the symposium focused on the near-term "survivability" of regional exchanges during a period of transition from the anticipated introduction of consolidated transaction tapes and competitively determined brokerage commission rates to the presumed completion of the central market system with implementation of a workable consolidated quotation system, together with whatever rule changes and improvements in clearing and depository systems will have been obtained by then. Although the symposium participants made no effort to arrive at an official consensus on the question, considerable concern was evident that the period between institution of competitively determined rates and installation of a composite quote system would be a difficult one for regional stock exchanges. The longer-term viability of regional exchanges was seen in less specific terms, however, as depending in large measure on the same factors as those that affect the longer-term viability of exchanges in general for assembling and executing securities transactions.

The symposium's review of the status of efforts to create a central market system centered on reports by Congressman John E. Moss, chairman of the Subcommittee on Commerce and Finance of the Committee on Interstate and Foreign Commerce, which has legislative responsibility in the U.S. House of Representatives for securities matters; Commissioner Philip A. Loomis Jr., senior member of the Securities and Exchange Commission; Donald I. Baker, deputy assistant attorney general in the Antitrust Division of the U.S. Department of Justice; and Harvey A. Rowen, counsel to Congressman Moss's subcommittee. Responses by spokesmen for three prominent regional stock exchanges, evidencing their perceptions of and plans for responding to the changing legal and market environments faced by their exchanges were provided by G. Robert Ackerman, president of the Pacific Stock Exchange; Elkins Wetherill, president of the PBW Stock Exchange; and James E. Dowd, president of the Boston Stock Exchange.

Substantive panels on three key elements of the emerging market system—composite tape(s), composite quotations, and clearing and settlement—were conducted under the chairmanship of persons who had carried out extensive studies in areas pertinent to those topics. The panels contained in addition other prominent and knowledgeable persons whose combined backgrounds and views effectively spanned the subject area.

Sidney Homer's presentation, "The Historical Evolution of Today's Bond Market," added perspective to the difficult evolutionary process currently being experienced in the stock market by providing a historical overview of the bond market's development that is rich in both depth and detail. Mr. Homer is a member of the

National Bureau's advisory committee on interest rates and is a veteran of more than fifty years in Wall Street. As he demonstrates in his paper, however, his perspective spans centuries.

Invited postscripts by selected academic participants, which were prepared after the symposium's conclusion, reflect on its contents and are intended to perform an integrative function.

Open discussion periods followed each major block of the symposium's program, and they are an integral part of the proceedings recorded below. Considerable effort was made in organizing the symposium to assure balance in the views presented by persons from government, various segments of the securities industry, financial institutions, and legal and academic communities, not only on panels and other formal sessions but also in the group at large. As indicated by the open discussions presented below and by the list of participants following this overview, that aspiration was reasonably well attained.

As noted above, the National Bureau of Economic Research in association with other cosponsors participated in the symposium's organization and conduct. Given the special nature of its content, however, no effort was made to subject the proceedings contained in this issue of *Explorations* to the Bureau's full review procedures. Accordingly, the resulting volume is not an official publication of the NBER.

Every effort was made to assure participants of an opportunity to review and edit their remarks. Additional, subsequent editorial review was provided by the Bureau to obtain uniformity of style, to correct suspected transcription and typographical errors, and, on occasion, to clarify exposition. Time did not permit subsequent review of such changes by the authors. It is hoped that no errors or misstatements of consequence were introduced by this process.

The symposium was organized and coordinated by Donald E. Farrar, who was ably assisted by Diana Barstad and her colleagues in the Executive Education Program Office of the UCLA Graduate School of Management in managing the innumerable administrative details associated with the gathering; and by Margaret Eaton, who managed the difficult logistics associated with compilation of the proceedings for inclusion in this issue of *Explorations*. Thanks also are due to John R. Meyer, president of the National Bureau of Economic Research; Harold M. Williams, dean of the UCLA Graduate School of Management and chairman of the Norton Simon Inc. Foundation on the Business-Government Relationship; and G. Robert Ackerman, president of the Pacific Stock Exchange, for their support of the symposium as individuals and as heads of sponsoring organizations. The symposium provided an unusual opportunity for a broadly representative, yet uniquely talented group of persons from government, industry, and academia to focus together on a problem of considerable complexity and importance, and to communicate the results of their interaction to the broader professional communities from which they and the sponsoring organizations are drawn. This resulting symposium issue of *Explorations*, is expected to be of topical value to persons in government and the financial community and of lasting value to scholars and students of the world's largest capital market during a period of fundamental and sometimes traumatic change.

The Second Quarter 1975 ASA/NBER *Business Outlook Survey*, conducted jointly by the American Statistical Association and National Bureau of Economic Research, completes this issue of *Explorations in Economic Research*.

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**SYMPOSIUM ON REGIONAL STOCK
EXCHANGES IN A CENTRAL
MARKET SYSTEM**