

**REMARKS BY JOSEPH R. HARDIMAN
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BOCA RATON**

It's a pleasure to be back here in Boca. I must say, it was nice to receive an invitation to comment on the NASD and Nasdaq that wasn't accompanied by a subpoena.

Seriously, the environment we've found ourselves in these past months makes you appreciate your friends and supporters, and the NASD has a great many of both here today.

During a year in which the NASD has had its share of both opportunities and obstacles—my message is that like the industry itself—constructive, indeed unprecedented, change is taking place at the NASD and The Nasdaq Stock Market.

Given the overlap in NASD and SIA membership, and the fact that the SIA's members are active participants as both intermediaries in The Nasdaq Stock Market and advice providers to investors, our change represents YOUR change.

Today I want to focus on changes that are taking place in market structure, our governance structure, and our disciplinary and enforcement activities. To provide a context for these changes, let me begin with the focal point of many of the changes now taking place—the investor.

The extent of investor participation in the market today is at an historic high. This is due in part to a dramatic shift in long-term financial responsibility from the corporation to the individual—specifically, the replacement or scaling back of defined benefit plans where the company made the investment decisions to self-directed benefit plans where the individual has responsibility for making his or her own investment decisions.

Far and away, the most prevalent decision being made right now is to direct money into equity investments. As Newsweek magazine reported recently, all those "buy-stock-for-the-long-term" seminars our industry has been holding must have kicked in because more than 70 percent of new 401(k) money is being directed into stocks and stock mutual funds.

But 401(k) money is just part of an overall trend. According to the Investment Company Institute, 1995 will be the third straight year in which total new sales of equity mutual funds will set a record. Through the third quarter, there has been a net inflow of new money into equity funds of over \$207 billion. And this doesn't count the \$108 billion in transfers from non-equity funds into equity funds. Much of the new money coming into equities is retirement related, but if last year is an indication, over a third will be shown to have come from discretionary savings.

The result is that employees are becoming investors...America's households are managing their financial future...Markets are more active than at any time in history...and America's securities industry is providing more people with more advice and services than ever before.

The broker-dealer community is providing millions of Americans crucial assistance in developing new retirement plans that replace or augment company pension plans. Baby-boomers, with streaks of gray in their hair, are receiving direction that will give them a retirement to look forward to. Young families investing for the future are receiving guidance that will put their kids through college.

In short, the professionals in our industry are becoming much more like family doctors who provide counsel on ways to achieve and keep financial health for a long life.

I spoke a moment ago of the kind of effort you've expended to educate the public on the benefits of equity-investing. But the industry has also recognized that staying on top of rapid change requires continuing training and education for its own professionals.

Now a formal requirement for the industry, continuing education represents a valuable service to investors who are the true beneficiaries of a knowledgeable and informed industry.

The fact that continuing education is a reality is testimony to a healthy partnership between the industry, the SROs, and the SEC. Like every partnership, there are times when all the partners are shaking hands and other times when some of them are shaking their fists, but overall it's been a very positive partnership. The result is a blanket of investor protections that have kept confidence levels in our markets at record highs.

To sum up what our industry has achieved: we have educated the public on the benefit of equities, advised them on how best to achieve their personal goals through investing. We have developed new financial instruments and new market systems. We have increased public confidence by building the credibility of self-regulation. All this clearly demonstrates that this is an industry that listens, learns and responds.

We are also looking to the future.

If we lift our heads and look to some of the events that are shaping our industry, we see they really do form a matrix: The movement from command to market economies, the technology and information explosion, the growth of emerging markets, the aspirations to middle-class affluence and the rise of entrepreneurship—all of this is occurring not just in a few leading countries but on a global basis.

These are exciting times when it feels almost as if we are present at the creation of a new financial universe. Change is taking place at breakneck speed. And our response to change is in a state of constant acceleration. As that great business philosopher Mario Andretti recently said, "If you have everything under control—you're going too slow."

At Nasdaq, we're finding ourselves—and our companies—becoming a link in the transition from the industrial age to the information age, away from an era of incremental change and toward an era of entrepreneurship. As you're well aware, our market has been in high gear for quite some time.

Consider, just for a moment, a few facts:

- First, Nasdaq now trades in a single week the share volume of our entire first YEAR of operations, just 24 years ago.
- Second, in 1995, Nasdaq's market capitalization broke the trillion-dollar mark for the first time in its history. It took our market nearly 21 years for it to reach a market capitalization of \$500 billion—but only 42 MONTHS to double that capitalization.
- Third, growth brings with it other rewards. Although Nasdaq companies represent less than 1 percent of U.S. businesses, in the first 54 months of the 1990s, they created one in six of all new U.S. jobs.

Like the companies that have made our reputation, we are on the cusp of the information revolution. Our exponential growth derives from the fact that we are electronic. We are global. We are interactive. We are competitive. We are a dealer market with not just a few market makers, but many. We provide our companies with efficient capital—and we have historically rewarded investors with strong returns.

I didn't come here to give a sales pitch, but to make a broader point. Our past success came as a result of continually adapting to the needs of our constituents—investors, companies and members. Our future success relies on this same willingness to change—to learn, adapt and grow.

Our migration to a new technology architecture exemplifies the challenges we face. We're in the home stretch of the most critical part of that migration, which will allow Nasdaq to handle more than double, perhaps even triple, the current 450 million shares a day our market has been processing.

But when I say home stretch, it's really the home stretch of ONE LEG of a relay race with virtually no end in sight. The reality is we're involved in a continuous improvement process, requiring ongoing and substantial investment in technology.

If we want to continue to be a leader in market innovation and in self regulation, we must aggressively seek out challenges, not avoid them. We must seek them out, and turn them into opportunities.

In that context, let's talk about the three areas in which change is occurring in our organization. Each presents challenges, but each also offers opportunities. The first is change to Nasdaq's market structure...the second is change to the NASD's governance structure...and the third is change on the regulatory front, specifically in our disciplinary and enforcement activities.

In terms of market structure, we have proposed a very significant change to the way in which trading takes place on Nasdaq. I'm referring to our NAqcess proposal, which we filed with the SEC in September. The key beneficiary of NAqcess will be the individual investor, who will obtain improved transparency of limit orders, the potential for swifter execution of those orders, price protection, and the opportunity for price improvement.

NAqcess dovetails with several of the SEC's recent rule proposals, especially the manner in which limit orders are handled and displayed. Given the compatibility of NAqcess with the SEC's blueprint, we encourage the Commission to act promptly on our proposal so that investors can soon begin to reap the benefits of our new system.

Turning to the NASD's governance structure, it was here, in Boca last year, that I announced the formation of an NASD Select Committee on Structure and Governance. Launched in consultation with Chairman Levitt and chaired by former Senator Warren Rudman, the Committee was charged with not only reviewing the governance structure of the NASD but also with looking at its effectiveness as a self regulatory organization.

The Committee's 400-page report reflects the exhaustive review undertaken by the Committee—probably the most thorough review of the NASD in its 56-year history...I'm pleased to note that Chairman Levitt has called it "very constructive"...and I'd like to cover some of the Committee's key recommendations.

First, the Committee noted that—and I quote—the "NASD has discharged its self regulatory responsibilities, not of course with perfection or without difficulty, but professionally and reasonably."

The Committee also did not recommend that the NASD and Nasdaq begin divorce proceedings. In fact, the Committee felt that a formal separation between the market and the NASD would in the Committee's words, "sacrifice a key benefit of the self-regulatory system, which links industry expertise with industry regulation, so that each is informed and enhanced by the other."

That said, a healthy dose of change was prescribed.

While a divorce was not recommended, a more complete separation between the NASD and Nasdaq was. Specifically, the Committee recommended there be a parent company—the NASD, Inc.—overseeing two separate and distinct subsidiaries: NASD Regulation, Inc. and The Nasdaq Stock Market, Inc.

So where there are now two entities, the NASD and The Nasdaq Stock Market, the Committee has proposed three, with clearer lines of demarcation between the various corporate entities.

Furthermore, the Committee recommended that non-industry representation on the various Boards be expanded—with the NASD Board setting a new standard among SROs with a majority of non-industry governors and the NASDR and Nasdaq boards each having 50 percent non-industry representation.

Turning to the regulatory process, the Committee made a number of positive recommendations to further professionalize our disciplinary system while maintaining the pivotal role of peer review.

The Committee saw the importance of keeping the "self" in self regulation, but recognized the need to augment this process with "professional hearing officers," who would be part of the professional staff of the NASD Regulation entity. Hearing officers would participate as voting members in all disciplinary hearings unless the parties agreed otherwise.

The Committee also recommended making substantial increases in the financial resources devoted to regulation, which I can go on record as confirming the NASD intends to do. Specifically, in 1996 we will be committing significantly more resources to our District offices and market surveillance, which are at the frontlines of administering the NASD's regulatory and compliance obligations.

Recognizing the value of regulatory cooperation, the Rudman Committee also recommended that there be routine high-level meetings between the NASD regulatory entity and other principal securities regulators including SEC representatives, state regulators, and officials of other SROs.

Finally, the Committee endorsed NASD plans to create an investor services unit that will make sure investor interests and concerns are included in the rulemaking and decision-taking process. This office will also undertake a broad range of investor programs and generally provide a mechanism through which investor concerns are identified and addressed.

These proposals have been agreed to in principle by the NASD's Board. The NASD staff, in turn, has responded swiftly to the Board's request that we develop an implementation plan to turn the Committee's recommendations into realities. We submit a comprehensive action plan to the Board at its meeting next Friday.

Like the recommendations of the Committee itself, this plan will be far from cosmetic. It will represent positive structural change.

In the challenging months ahead, we look forward to working with you in improving the NASD and the self-regulatory process. We also look forward to working with you to keep Nasdaq the premier market for growth companies, and a market that continues to enjoy record levels of investor participation.

Thank you.