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THE CONSOLIDATED TAPE:
A PERSPECTIVE

An Address by

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NATIONAL ASSOCIATION OF
SECURITIES DEALERS

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Not long ago several of us at the Commission had a long and most interesting visit with the head of a major securities firm who is a most thoughtful and articulate man. Among the many things he had to say, he stressed anew the depressing effect upon the securities industry as well as the securities markets of the multitude of uncertainties in the minds of men in the industry as well as investors.

This observation is not the truism it might first appear to be. Of course, a degree of uncertainty affects all human endeavors, and in a real sense the securities industry needs some uncertainty -- without it we would not have very active markets. But this man was referring to something a good deal more than the ordinary uncertainties inherent in securities analysis and market forecasting. He was referring to uncertainties as to the basic future structure of the securities markets, the applicable laws and rules governing the markets, government policy with respect to the securities industry especially on such a fundamental matter as the relative roles of securities firms and the commercial banks. And, on a broader sphere,

uncertainties as to policy affecting international capital markets and the flow of capital to and from the United States.

Some of these major uncertainties are at least outside the jurisdiction, if not beyond the competence, of the Securities and Exchange Commission, but let us consider those that are within our official area of concern -- namely market structure and the future rules of the game. When one reflects on the last three years in the industry and then contemplates the present profusion of proposed legislation, proposed rules and conflicting proposals from other quarters, it is easy to have the emotional state of Robert Burns when he wrote:

We backward cast our eye on prospects drear
And forward, tho' we canna see,
We hope and fear.

This collective angst combined with nostalgia is not healthy for the individuals it afflicts nor beneficial to the industry nor to the economy. It is not in my power to exorcise this incubus in one speech or in a thousand. But I would like to make a start at removing some of the uncertainties.

In so doing I am aware that the removal of uncertainty may only confirm one's worst fears. I presume that something like this occurred with our statement on the removal of fixed commission rates by April 30, 1975. After years of worrying that some day fixed commissions might be removed, members of industry were then, and are now, faced with the realization that, by God! the SOB's are really going to do it. Is this certainty better, healthier than the preceding uncertainty, since it is better to fight the devil I know than the devil I know not? Many have expressed this opinion, although on this particular matter we do not agree that any devil is forthcoming.

The Congress, the Commission, the self-regulatory organizations and other elements of the securities industry have been engaged in a long and frequently contentious endeavor to establish in our country a coordinated, competitive system of markets for the more widely held and traded securities -- a system that will take full advantage of modern technology to provide markets for all investors which will offer liquidity, continuity and fairness to the maximum

extent attainable. This idea has come to be called a central market system. Its aims in part are to redress some of the market advantage thought to be held by institutional investors over individuals and thus to make the securities markets more attractive to individuals. It seeks to preserve and enhance the virtues of auction markets while making accessible to all investors the resources of specialists on all exchanges and of third market makers.

While I get statements from concerned members of the industry expressing fear that the effect if not the intent of this restructuring will be to alienate the individual even further, to destroy the auction markets and to dry up our resources for the underwriting and distribution of new issues, large and small, I can assure you that the concept of the central market system has not been developed for such purposes, and we are confident that it will not have these results.

The total concept of a central market system is too multifarious for detailed discussion in one talk. The Commission's basic views on the subject have been expressed

in many speeches and writings. The single most comprehensive exposition may be found in the Commission's "Policy Statement on the Structure of a Central Market System" dated March 29, 1973, which I commend to your attention. That paper was not brought down by Moses from the mountain. It reflects the considered judgment of Commissioners and staff based on the testimony of industry spokesmen and others in various public hearings extending over many years as well as the views of the two Congressional studies on the general subject, and the recommendations of advisory committees from the industry appointed by the Commission. It did not attempt to solve all of the myriad detailed problems that must ultimately be solved. It is naturally subject to change as a result of future learning and experience. But it is our program, and I think if you read it carefully it will remove many of your uncertainties and, I trust, many of your fears.

In broadest outline, the central market system as viewed by the Commission contemplates a consolidated tape and a composite quotation system linking the several market centers -- exchanges and over-the-counter -- and an adjustment

of rules and regulations to provide for efficient operation and fairness of competition. As additional developments which are in a sense ancillary but of perhaps even greater importance, it contemplates nationwide, low-cost systems for clearance of transactions and the immobilization of certificates through depositories. Today, I would like especially to discuss the consolidated tape.

What is the consolidated tape? Who thought it up and who wants it? What good will it be? How will it operate? Who will operate it? When will it come?

There is no need to emphasize to this audience the importance of brokers generally having available current information with respect to securities transactions. The ability to know what is going on in the market as it happens -- or as near thereto as possible -- is an obvious benefit to anyone contemplating a securities transaction. Knowing the last price and the trend of prices is perhaps not quite so important as knowing the present quote, but it is important enough.

Heretofore and presently the only systems for making this information widely available on any market are the tapes of the New York and American stock exchanges. They are marvelous devices,, developed over many years and maintained with great care. They have long been a fixture in our financial life, and no sensible person would want to abolish them or to lessen their quality and reliability. The consolidated tape would only enrich them.

The present tapes quite naturally cover only stocks listed on the respective exchanges and report only transactions in those stocks that occur on the exchanges. They do not report transactions on regional exchanges or in the third market. The consolidated tape would cover this additional information to be reported concurrently with what is now reported.

This seems like a simple enough idea, assuming that it can be done efficiently at reasonable cost, which it can be. It will not in itself create a central market system, but it is a necessary part of such a system and something that can be done while other components of the system are

being worked out. It did not appear, however, that it was going to come about without some encouragement from the Commission.

To that end, in November 1972, the Commission adopted a rule -- Rule 17a-15 -- requiring national securities exchanges and the NASD to submit a plan for such a consolidated tape. In response to that rule, a working group was formed of representatives of the New York, American, Pacific, Midwest and PBW exchanges and the NASD, with observers from our staff. In the course of time this group developed a Plan which has been submitted to us in response to Rule 17a-15. The Plan and our initial comments were published for public comment, the participants have responded to our comments, and we will shortly be informing the participants of the Plan of our position on whether the Plan satisfies the rule or whether some changes are necessary. There are some points of disagreement.

While I will shortly discuss these points of disagreement, I would not want them to obscure the significance of the achievements of the self-regulatory bodies in coming as

far as they have. It has not been easy for the New York Stock Exchange and the American Stock Exchange to accept this idea that competing markets should have equal exposure along with their tapes and to cooperate in bringing this about. Representatives of those exchanges have had to suppress very natural proprietary instincts with respect to their tapes, and the other participants have also had to accept some obligations and limitations that don't always come naturally. This sort of thing takes time, but in the end considerations of the common good are gaining the ascendancy -- as they usually do when responsible persons work hard and long enough on a mutual undertaking.

What has now been accepted by all participants is substantial. Considering where we were two years ago, we have come a long way. Most characteristics of the consolidated tape are now well settled.

The Plan provides for a tape which will really consist of two separate ticker "networks" that will appear concurrently. Network A will report transactions in stocks listed on the New York Stock Exchange. Network B will report transactions in stocks listed on the American Stock Exchange and

some stocks listed only on the participating regional exchanges. Most importantly, both networks will report all trades in their respective stocks, regardless of whether they take place on an exchange or in the third market. There will also be an interrogation device enabling the user to get the last sale price for any stock covered by the system on any participating market.

The tape will be operated by the Securities Industry Automation Corporation, which has done much of the developmental work on the tape from the technical side. "SIAC", as it is called, is presently owned by the New York and American stock exchanges. The Plan provides for the New York and American exchanges to recoup their investment in development costs over the first five years of operation.

The tape will be governed by a Consolidated Tape Association which will have six participants. The New York and American exchanges will each designate two representatives and each of the other participants -- the Pacific, Midwest and PBW exchanges and the NASD -- will designate one representative. Decisions of the Association will require the affirmative vote of at least five representatives.

The system will be compatible with ticker and cathode ray tube equipment presently found in most brokerage offices.

The Plan calls for the tape to be put into operation in two phases, beginning not more than 20 weeks after the Commission's approval of the Plan. Phase I will be an additional 20-week period of experimental, or shake-down, operation covering a limited number of stocks. Phase II will be the permanent operation. At the beginning of Phase II, the tape will cover transactions in all stocks listed on the New York and American exchanges as well as others that meet standards similar to AMEX listing standards.

There will be market identification of all transactions not executed on the NYSE or AMEX, including identification of third market trades.

These are the essential features of the consolidated tape as provided in the Plan. It is not expected to increase the costs of broker-dealers who now subscribe to either of the present New York or AMEX tapes.

There are, however, some additional points as to which there has not yet been a meeting of the minds. One of these is the provision for amending the Plan in the future. As submitted, the Plan provides that an amendment requires, in effect, the concurrence of both the New York and American exchanges plus one other participant. Stated the other way, New York and the AMEX each has a veto on substantive amendments. The Commission has proposed that the Plan provide that the Commission may prevent amendments by disapproval and may compel amendments even though not approved by the necessary vote of the Association.

The participants in the Plan, particularly the New York Stock Exchange, have not yet acceded to the Commission's proposal. To a degree this disagreement involves procedural aspects of the Commission's general authority over rules of national securities exchanges which are the subject of legislation pending in the Congress.

There is also a question regarding suspensions of trading. If, for example, the New York Stock Exchange or the AMEX suspends trading in a stock, should the tape continue to report transactions in that stock occurring on other markets?

When the suspension is ordered because of conditions in a particular market, everyone agrees that it should. When the suspension is ordered for so-called regulatory reasons -- unconfirmed rumors abroad, an impending announcement of major significance, and so forth -- we have taken the position that reporting should cease as to all markets only if the Commission so decides. New York and AMEX disagree, arguing that this is a decision properly relegated to the "primary market" in a stock.

The hours of operation of the tape are likewise unresolved. The Commission's position, based on our goal of maximizing disclosure, is that the tape should run while any national securities exchange is open and the SEC is open - 9 a.m. to 5:30 p.m. Eastern time. Later trades would be reported on the tape prior to the next day's opening. The participants, particularly the New York and AMEX, prefer that the Plan at this time provide only for a study of the hours of tape operation during Phase I with a resolution of the issue prior to the full implementation in Phase II.

While these open points are not insignificant, they are relatively minor compared to the issue referred to in our

discourse on this subject as "equal regulation." Here, the New York Stock Exchange has taken the lead in asserting that the consolidated tape should not go into operation, even for Phase I, until all participants have adopted uniform rules governing trading on their markets. We have agreed that equal regulation should precede the composite quote system and the full establishment of the central market system but we have not agreed that the consolidated tape should await this development. We are not against equal regulation. Indeed, we think it essential, in proper sequence. We just don't want to wait for it before getting the tape started.

What do we mean by equal regulation? New York has set forth what it means to them in a document issued last September. It wants uniform rules relating to manipulation, proper use of exchange membership, short sales and responsibilities of market makers. In an effort to make progress toward this end, New York has invited the tape plan participants to form a working group which is holding its organization meeting this week.

We applaud this initiative by the New York Stock Exchange to get things moving in this direction because it will hasten the advent of the full central market

system. But we are still not convinced that the consolidated tape must wait upon its final success. On the contrary, when the New York exchange asserted this position last summer, the Commission responded that the only uniform rules necessary before the tape begins are those relating to manipulation and short sales.

Of course, if the participants could reach prompt agreement on uniform rules in all the areas proposed by New York, we would be delighted, but this may be too

much to expect. The proposals relate to matters affecting regional specialists and third market makers that one must expect will require rather lengthy discussions.

Apart from New York's full panoply of proposed uniform rules, some members of the industry, particularly exchange members, have expressed misgivings about our position. What seems to be most feared are the problems that may be raised when customers can see the transactions in a given stock on all markets at the same time. Suppose a customer places a market order to purchase a modest number of shares which is executed at 30 on the New York Stock Exchange at 1:30 Eastern time. But, he is watching the consolidated tape and he sees that at that moment there was a transaction in the same stock on a regional exchange at 29-3/4. Will he feel mistreated and perhaps even sue his broker? We don't think he would have any basis for asserting liability. Until the full central market system is in being, we don't think the consolidated tape alone will increase a broker's duty to search all possible markets for the best price. This won't necessarily keep the customer from

being unhappy if he doesn't understand what is going on, but we assume that it can be explained to him.

This is what is going on in the consolidated tape area. In itself it won't remake the world, but it is an essential first step. I hope you can come to look upon it as something helpful to you and your customers and not anything to dread. In all of the discussions needed to work out something like this, patience sometimes wears thin. When it does, we are apt to be accused of stepping out of our traditional role of oversight and enforcement and of trying to take over the operation of the securities markets. I assure you that we could neither design nor operate the consolidated tape even if we were foolish enough to want to.

We do, however, have a statutory responsibility to exercise our authority over the rules and practices of national securities exchanges and over-the-counter

markets in the public interest and the interest of investors. After literally years of study and debate, the Commission has concluded that the better of the argument lies with the central market system as best serving this Congressional mandate. We are also confident that this can be done without sacrificing the great benefits we all derive from heavy reliance on self-regulation in the securities industry. I trust that, as you become more familiar with what is coming, you will welcome it as good for yourselves as well.