



Bob Greifeld Remarks  
SIA Market Structure Conference  
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“Market Structure and the Future of Competition”

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Thank you Don for the kind introduction.

As Don mentioned, I started my new job at NASDAQ a few weeks ago. I am honored to be leading an institution that makes such an important contribution to the nation’s economy, and to this country’s ability to compete, innovate and grow. I’ve spent the last few weeks working on the most important tasks: listening and learning from our listed companies, meeting new colleagues in the industry, and of course, finding the nearest Starbucks.

Today, however, is my first public speech as president and CEO, and I can’t imagine a better forum for an engaged discussion on the issues we all face.

Market structure is of great importance not just to the securities industry, but to the nation as a whole.

The creation of The NASDAQ Stock Market in 1971 was the catalyst that began the true debate around market structure. It would be difficult to have a serious conversation about one without the other.

The world has changed and with it the securities markets have evolved. Some changes have been internal to the industry, most notably the advent of decimalization and new order handling rules. But these changes pale in comparison to external forces: the bursting of the market bubble, the economic recession, the scandals at corporations and among Wall Street investment banks.

The result has been a deep crisis in investor confidence – a crisis we may now only be emerging from.

The question of who is ultimately responsible for this crisis will be debated for years to come. But the responsibility to rebuild investor confidence and trust falls squarely on all of us.

A key way for us to effectively fulfill this role is to modernize and improve our market structure in a way that benefits investors and the overall economy.

There are many elements to market structure – and many as yet unresolved questions that will surely be addressed here today.

But I would like to outline what I believe will prove to be the hallmarks of modern market structure – a structure that will impact NASDAQ, other stock exchanges, market makers and ECNs. Those hallmarks are:

- Competition
- Execution
- Transparency
- Governance

Let me address each of these briefly.

Competition is the most essential component of capitalism and sound market structure. Essential -- yet also complicated, since not all market participants agree on what an ideal competitive market looks like.

That shouldn't surprise us. For nearly 70 years, U.S. markets have been governed by a legal structure -- the 1934 Securities Act -- that envisioned a very different view of how markets should work.

Today, a combination of technology and more market participants has created a different standard. We believe in the inherent virtue of competition – which means multiple participants. Obviously at NASDAQ, we believe the competitive markets of the future have to be transparent. The markets can not have a monopoly on who trades, or where trades are executed. The standard has to be what is best for investors. I believe that a competitive, open system is the most efficient way of serving investors and meeting their needs.

At the heart of this competitive structure is internalization. Internalization is a confusing term and what it really means is competition. There is nothing new about it. The SEC has permitted market makers to trade with their customers without first executing other displayed orders since NASDAQ first opened its doors.

Market structure based on competition adds much-needed liquidity for both the market and all those who participate in it. Internalization allows ECNs to provide immediate matching, while market makers can offer automatic executions for their customers at sizes in excess of the displayed quotation size.

If we don't support a model with multiple participants, then what's the alternative?

There are clear advantages to this system of internalization that are now widely recognized. In most cases, it allows more orders to be executed at the best

price. We couldn't achieve this result if all the orders were required to be submitted to a centralized trading system.

Competition benefits investors – especially the small investors whose confidence in the market has been shattered.

The specialist model doesn't offer these advantages because at heart it is a monopolist system, created by lawmakers who couldn't possibly have envisioned that a stock like Cisco can change price more than 30 times in a second -- that those price changes could be instantaneously visible to all market participants -- and that those trades would happen in mere milliseconds.

Today's system of multiple participants is much more efficient. NASDAQ does not limit the number of broker-dealers that are permitted to display buying and selling interest and compete for orders. That creates a tough competitive environment for market makers and a great environment for investors. The average number of market makers for a stock traded on NASDAQ is 15 – and many stocks have upwards of 100 market makers competing for orders. Clearly this has created some pain. But history has shown us that regulations to make markets more efficient benefit everyone.

One concern NASDAQ has relates to the cost of regulation. The financial implications of good regulation drive market participants in a race to the bottom. We want to promulgate a structure that encourages a race to the top in regards to quality of regulation.

## **Execution**

Quality of execution is the measure by which we judge a market. "Dash-5" has put a direct spotlight on the positive outcome of competition. Our system is faster -- an electronic system is always going to be faster. That is true not just for trading large cap stocks but also for smaller, MidCap stocks. One statistic is enough to make my point: NASDAQ orders execute in approximately 2.1 seconds across all market centers while orders for comparable floor-traded stocks average 17.2 seconds per execution.

But best execution means more than speed. Our market participants offer tighter quotes and as a result investors get better prices.

The average effective spread on all marketable orders of all sizes is 20.7% better than our floor-based competition.

We believe investors want to have a say in what constitutes best execution, which can mean different things at different times to the same investor. Best execution can at varying times be about speed, price, certainty of fill or market impact. Investors do not want to wait 30 seconds for an ITS trade. If you see a

price, but can't get that price, it's a form of false advertising. And that erodes investor trust.

I suggest we should be doing more to take advantage of the ways an electronic system can improve execution. In today's environment, with mixed and competitive markets, we should not let the slower market centers hold up the entire market or limit choice. Investors deserve choice. Exchanges that meet the needs and choices of an investor more quickly should be permitted to trade through quickly.

We have taken this issue up with the ITS, but it is my belief that the leadership of the SEC will be required to resolve this issue.

### **Transparency**

Of course, none of this would be possible without superior technology. Technology is not an end in and of itself but a vehicle that allows us to provide not only speed, but transparency. Technology allows all buying and selling interest to be displayed globally – at multiple levels. It means buyers and sellers in all markets are visible to all interested parties all the time. The markets were traditionally closed, but over time they have become completely open.

The launch of SuperMontage was clearly our biggest contribution to market technology. It was built in line with our goals for transparency. It will, overtime, transform the way markets operate.

Because it offers participants greater depth and greater transparency, SuperMontage makes it easier for investors of all types to complete transactions efficiently. It is the quintessential open system: whatever strategy you might have, whatever systems you use to complete orders, they simply have a better chance of being fulfilled quickly on SuperMontage than if they are not.

The NASDAQ Stock Market is a big tent with multiple participants. SuperMontage is one element under the tent, and while it is an important execution venue and an important element of our market, it wasn't designed to capture all trades. Our market structure is about internalization and competition. Ultimately SuperMontage is about creating a superior universe for trading, on in which all orders are price protected and accessible instantaneously to all market participants.

### **Governance**

Post Enron, governance has been widely discussed and debated.

Earlier this year, Bill Donaldson wrote to NASDAQ and the NYSE asking a very fair question: do the governance practices of the SROs meet the same

demanding standards that we are now imposing on our listed companies. Independent directors on our Board representing the public interest examined the way we operate very closely.

They reported favorably that NASDAQ abides by the rules it asks of its listed companies. In other words, even though we are not legally subjected to the listing standards we require, NASDAQ is run as if it were.

There is one piece missing in this story. It would allow us to complete the cycle of good corporate governance. We need to separate ourselves from our regulator, the NASD. Healthy market structure demands it.

But as you know, we cannot separate ourselves from the NASD until the SEC recognizes us as a registered exchange. Our application to become an exchange has been pending for over two years. Until it is resolved, we feel we can not truly complete our cycle of good governance.

Look at it like this: no regulator should have an economic stake in the success of the market it regulates. It's fundamental. In this era, it is inconceivable to do otherwise.

So while we have done everything we can to separate our operations, including separate structures and separate boards, we remain linked to the regulator.

The world has changed – let's not let 1934 be the defining era for markets.

NASDAQ operates and governs itself as a registered exchange and the SEC has acknowledged as much. But until we get their formal assent, we are left with a less-than-ideal governance system and a market structure still stuck in the past.

## **Conclusion**

Let me sum up. Today there is healthy and robust competition among the exchanges. Our goal, as advocates of better market structure, should be to have more competition, not less.

We should demand best execution for investors and from traders.

We should aggressively leverage technology to make our markets more transparent and open to all participants.

And finally we should demand a governance system that sets the same standards on the exchanges that we insist on for public companies. We must remove the temptation that lies in closely linking a market and its regulator.

Your deliberations today are important. Making the markets better for investors is at the heart of what drives NASDAQ, and in turn, what ultimately drives the U.S. economy. I look forward to continuing the discussion with you.

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