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Pages 25-33 | Published online: 31 Dec 2018

 Cite this article <https://doi.org/10.2469/faj.v34.n4.25>

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by Junius W. Peake

The National Market System

► In calling for a national market system, Congress stipulated "fair competition among brokers and dealers, among exchange markets and between exchange markets and markets other than exchange markets." The issue of access is thus central to the design of any national market system: Given today's technology, there is no justification for limiting market making in a security to a single person or group. Nor is there justification for having fewer than all orders competing at the same time. Computers have the speed and power to queue display and match orders of investors large and small all over the nation and, indeed, the world.

But the securities industry operates under a unique system of self-regulation, subject to the oversight of the SEC, involving stock exchanges, the NASB, the Municipal Securities Rule-Making Board, the Composite Tape Association, the National Securities Clearing Corporation, the Securities Industry Automation Corporation, the depositories (owned jointly by brokers and banks) and the 50 state securities administrators. Because the creation of a national market system will open the door to a new, unified approach to regulation, certain self-regulators have conducted a vigorous campaign to delay development of a national market system and to emasculate any potential overall self-regulator. Their attitude is perhaps not surprising: As long as self-regulators also operate market centers, they will find it in their interest to oppose a genuine national market system.

In this connection, it is interesting to see that, in its release of January 28, 1978, the SEC notes that a computer-based system allowing for the interaction of all orders would bring "fundamental changes in the manner in which securities trading is now conducted, and it is difficult to foresee, and to

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provide against, the problems and difficulties that might arise." The Commission thus rejects summarily the only system that will accomplish the two major objectives of Congress—total order interaction and full market-maker competition. ►

IN A FREE enterprise system, the capital market structure is most important. Equity capital is the keystone of the corporate financial balance sheet. Its cost is determined by the yields in the secondary market system. Thus the efficiency of that system in attracting risk capital is far more important to our nation's economy than the size of the industry that provides the mechanism.

It is their crucial role in the capital raising and allocation system that makes the health and well-being of the securities markets so critical to so many. Every corporate officer, every financial intermediary, every brokerage firm executive, every thoughtful businessman should understand the issues involved in the struggle for a national market system, since that struggle will largely determine the future shape of the market system.

An economist would require of a perfect national market system that *all* participants—the competitors in the game called capitalism—have an equal opportunity to vie for profit on a fair field of competition, with equally available trading information and with equal access to the trading arena. The present market system is not perfect: Trading information is available to certain competitors instantly, and not available to others at all; the field is composed of membership organizations that restrict access to the game to members.

A national market system should be directed towards achieving the economist's dream. However, many persons with experience in the present system assert that the current market structure is delicate. They claim that the advent of unfixed rates of commission has already weakened it, and that further tinkering may bring it down entirely. It is, however, mostly those with special privileges in the present

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