

Fordham International Law Journal

Volume 21, Issue 2

1997

Article 10

Session 1: The Global Capital Market: What's Next: Questions and Answers Moderated by Meredith Brown

Richard A. Grasso*

*

Copyright ©1997 by the authors. *Fordham International Law Journal* is produced by The Berkeley Electronic Press (bepress). <http://ir.lawnet.fordham.edu/ilj>

SESSION 1: QUESTIONS & ANSWERS

MODERATOR: *Meredith Brown**

MR. BROWN: I guess what Steve is saying is that your threat isn't the seventeen-year-old or the nineteen-year-old with a computer. It's NYSE is one acronym, AT&T is another, and maybe your competitor is AT&T or Microsoft. What is your crystal ball for the fifteen- or twenty-year horizon?

MR. GRASSO: Well, to know the peril of the question is to remember that fifteen years ago the Dow Jones Industrial Averages were roughly 7,000 points lower than where they are today, the personal computer had just been born and the only portable was a company by the name of Osborn Computer, the financial future had just been launched and there was no connectivity between the future market in Chicago and the cash market in New York, and volume on the New York Stock Exchange had never exceeded 100 million shares in a single trading session. So I'm glad you asked me fifteen years forward, because had you asked me three-to-five years forward, people would be around to point out where I was wrong.

MR. BROWN: I think you're giving us the short answer, which is "who the hell knows?"

MR. GRASSO: Let me offer an observation in part because, while no one can predict the landscape fifteen years forward, given the great summary that Steven has given about the impact of technology on product, volume, consumer — and you can go on and on down the list, environmental shift, capital implosion — I think it's important to at least hope, because science and theology I think have got to be combined here — you've got to hope that where we're going will embrace a principle that has basically built the market here in the United States, and that is Steven's reference to the SEC being the equivalent of the AFL-CIO for fifty million investors, always putting the investor first, always structuring your market, your regulatory oversight, your self-regulatory oversight, your technology, from the point of view of the smallest user of the market.

Secondly, I think it's important not to look at this landscape out as being one or the other. I think it's very important to rec-

* Partner, Debevoise & Plimpton.

ognize that while there is a globality to the movement of capital, home country markets and perimeter markets — and I consider mine to be a perimeter market to the 309 non-U.S. companies that we are privileged to trade — are not mutually exclusive. I think they are complementary of each other. We, at least in the companies that we are trading in the non-U.S. sector, find that it is a win/win. So it is not a matter of choosing one over the other.

We have been very fortunate in this country to have a terrific regulatory agency. I say that now because Steve reminded me on the day we announced decimalization it was his last official day of his current term, so I'm not playing to, if you will, the judiciary here. The SEC's participation in the development of the U.S. capital markets has really, I think, defined the difference.

So where I would say to you I would hope we would go is to a marketplace that never loses sight that we are the channel to take savings from those who would like a return better than the simple returns of fixed-income alternatives, a market that invites the smallest and the largest to the discovery of prices, to the allocation of capital in a fair and level way, and most importantly, an environment where the regulatory and self-regulatory frameworks recognize how dramatically different technology will drive those in the winning column from those in the "also ran" column.

I think that's terribly important, because if you look at the regulation of markets going forward, given all of the environmental assumptions that Steven has made — about utilization of the Net, about alternative trading systems, about what a marketplace is — but most importantly his last observation, if forty years ago the New York Stock Exchange had recognized that it is not a stock exchange, it is simply a data company, all of those vendor names out there today would be the same: ours.

Let me give you the translation of what I have just offered in observation means economically. Today the New York Stock Exchange, together with the American and NASDAQ, that part of NASDAQ that vends what is referred to as third-market information, collectively earn roughly US\$180 million for the sale of that data at the wholesale level. At the retail level, the vendor to the consumer, that translates into a US\$5 billion industry. Some-

thing between roughly US\$200 million and US\$5 billion has been left on the table; that's the bad news. The good news Steven points out: if you recognize that markets are really data companies and that data companies are really markets, you quickly understand that the choice strategically is going to be a very simple one: are you in the business of infrastructure (i.e., pipes and sewers) or are you in the business of content? I'm in the business of content. In a world that's wireless, content is king.

Derivative markets — any market that derives price, however scientific, however attitudinally reflective — is by its definition derivative in price. I think that's a very important landscape observation that's got to be tumbled into your question, Meredith, because it comes back to what a market is designed to do. It's designed to channel capital from savers to those who are dreaming of building the next Ralph Lauren. It's designed to provide a fairness and, if you will, a "come one, come all" sign to consumers.

If you never leave that definitional stance, technology, product, regulation, reflective of how the environment has changed, will always be contemporary. A long-about way of confirming, Meredith, your observation that no one has a clue.

MR. BROWN: Thank you. A special thanks to the distinguished panel here, and thanks to all of you for your patience. You, panel, have given us food for thought. Thank you very much. Thank you, audience.