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Opening Statement
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Committee on Financial Services

**Subcommittee on Capital Markets, Insurance
and Government Sponsored Enterprises**

Self-Regulatory Organizations: Exploring the Need for Reform
November 17, 2005

Good morning. Thank you, Chairman Baker, for holding this very timely hearing on the self-regulation of the securities markets.

Congress determined over 70 years ago that self-regulation was the most efficient and effective regulatory system for the securities industry. The self-regulatory organization, with its deep knowledge of both the business practices of its members and the operations of its market centers, would be able to monitor and more easily adapt to the ever-evolving securities industry. Self-regulation has worked reasonably well.

The Securities and Exchange Commission, in its supervisory role, has taken care through oversight and enforcement actions that SROs adequately manage the conflicts of interest inherent in a scheme where an SRO both regulates and represents the competitive interests of its members and market center. When regulatory lapses have arisen, Congress and the Securities and Exchange Commission have worked together to strengthen and improve this system.

About a year ago, in the midst of the market structure debate addressing the changing nature of our equity markets, the Commission issued both a Proposed Rule to enhance governance and transparency at SROs and a concept release proposing alternative models to the current SRO system.

Since the issuance of those releases, much has happened in the securities markets. The New York Stock Exchange and Archipelago are set to merge and become a for-profit entity. Nasdaq, waiting for the Commission's approval to be an exchange, intends to acquire Instinet's INET ECN.

The self-regulatory system has not been unaffected by these changes. Upon acquiring exchange status, Nasdaq will be completely severed from its regulator, NASD. With the completion of the NYSE-Archipelago merger, the NYSE's regulatory unit will be housed separately in a not-for-profit subsidiary of a new NYSE holding company.

In addition to these operational changes, we confront a rapidly evolving marketplace. Because of the fragmentation of order flow across multiple market centers, regulatory redundancies have appeared: broker-dealers may be subject to duplicate rulebooks, examinations, sanctions, and enforcement actions. Although the costs may be minimal for the largest broker-dealers, the smaller broker-dealers bear a disproportionate burden.

Because of complaints about such redundancies, last week, the NYSE and NASD announced a possible joint venture on regulation. The NASD has estimated a \$100 million cost savings for members if the NASD and NYSE partner to regulate the approximately 180 firms belonging to both SROs. Although this announcement seemed to catch many off-guard, I believe it shows the adaptability of industry regulation and the benefits that Congress foresaw when it initially determined to sanction the self-regulation of the securities markets.

I want to commend Chairman Baker for putting together these two distinguished panels and I look forward to hearing their testimony. I yield back.

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