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Headline: Global Stock Trading Needs Fixing--and Fast

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For all the talk about globalization, the foundation for an integrated world financial system doesn't yet exist. As Henry M. Paulson Jr., chairman and CEO of Goldman Sachs Group Inc., says, what we now have is a series of national and regional markets linked in precarious ways. Some of the weak spots were seen during the 1997-98 Asian crisis that caused Federal Reserve Chairman Alan Greenspan and former Treasury Secretary Robert E. Rubin to call for "a new financial architecture." But all along, it has been less important to redesign the exterior of the house than to repair the roof and fix the plumbing. A critical case in point: the fragmented infrastructure for trading of stocks, bonds, and derivatives across borders.

That's why it's worth paying attention to a conference to be held in London on Jan. 31 and Feb. 1 by organizations from the U.S., Europe, Asia, and Latin America that do the back-office work of securities trading--the clearance and settlement that allows buyers and sellers to exchange what they bought and transfer the money efficiently and reliably. It's the first time these specialists will meet to see if and how they can better cooperate. Wish them well, for unless the "pipes" through which money and information are being pushed are substantially upgraded and more centrally managed, at best they will constrict trading volume and at worst they will rupture.

The difficulty of managing complex negotiations at the International Monetary Fund or the World Trade Organization pales in comparison with the upcoming talks in London among organizations with different national allegiances, corporate cultures, regulatory pressures, and ownership structures. The same organizations, of course, compete with one another for business. This heterogeneous group will wrestle with a number of questions: What kind of common standards and technological protocols do they need? Should there be new partnerships among them? Should there be one central organization?

**INCREASING STRAIN.** They will be gathering against the background of soaring volumes of securities trading within and among countries. In the first half of 2000, for example, the U.S. Depository Trust & Clearance Corp.

(DTCC), the principle clearer of U.S. equities and bonds, handled 66% more than in the same period in 1999, a year in which it processed an incredible \$70 trillion worth of securities. Meanwhile, U.S. trades involving a foreign party have been tripling every three years since the early 1990s.

In a world increasingly turning to global stock markets rather than commercial banks to fund everything from new telecommunications systems to pension plans, we can expect increasing strain on capital markets that rely on disparate software systems, databases, and electronic capabilities. In the U.S., less than 1% of all trades fail to complete on schedule, but in Europe this failure rate is near 20%. A stock trade in the U.S. costs about 5 cents to clear; Europe is 10 times more expensive. In the U.S., the time between a trade and the final exchange of money is approaching one day, but not everyone else can move so fast.

Also, the disorganized global securities-processing industry undercuts the profitability of the big multinational brokerage firms that are forced to put up collateral to buttress their transactions and to provide financial support for so many clearing and settlement organizations around the world. Arthur L. Thomas, chief operating officer of Merrill Lynch & Co.'s Securities Services Div., says that if the global system were more integrated, a conservative estimate of what the brokerage firms could save--assuming only current trading volumes--is more than \$5 billion annually.

Jill Considine, chairwoman and CEO of the DTCC, acknowledges that the imperative of a seamless, virtual global infrastructure is not yet in sight. She also indicates that there is no internationally agreed upon vision for what the system should be, much less the next steps to get there. "We're approaching the edge of the map," she said. "We're beginning to sail into the unknown."

Unless major progress is made soon, Robert L. Pierre, vice- president for global operations at State Street Bank in Boston, foresees a major crisis, akin to the breakdown in back-office operations on Wall Street in the 1970s. But George S. Hender, vice- chairman of Options Clearing Corp. in Chicago, says he is more optimistic, as are many other Wall Street experts such as Eileen K. Murray, a managing director who oversees the technical operations of Morgan Stanley Dean Witter.

Given the technological, political, and commercial obstacles to an

agreement, however, the big question is whether the system will have to break down before it's fixed. Don't rule that out, for the lesson of previous financial crises is that the people closest to the markets either failed to see-- or didn't want to admit--that a debacle was just around the corner.

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