

**Subcommittee on Securities, Investment and Insurance**  
**"Consolidation of NASD and the Regulatory Functions of the NYSE: Working  
Towards Improved Regulation"**  
**Subcommittee Chairman Jack Reed, RI**  
**May 17, 2007**

This afternoon we are holding a hearing on the "Consolidation of NASD and the Regulatory Functions of the NYSE: Working Towards Improved Regulation." This merger will result in a new, single Self Regulatory Organization (SRO) for our capital markets.

In this increasingly globalized financial services market, no institution can remain static. They must continually reevaluate themselves to cope with dynamic and rapid change. In this context, this merger represents a very serious attempt to modernize and streamline operation of these SROs. What can't be lost is the continued need to keep our markets fair, transparent, and properly regulated.

Indeed, in a world of increased competition, confidence in the integrity of our markets is essential to assuring their continued supremacy and this merger needs to strengthen that confidence. In creating this new entity, there is an opportunity to take stock of where we are now and I further hope that this hearing is the beginning of dialogue on ways to improve the regulatory regime overall.

As Wall Street and Main Street intersect and millions of individuals invest in our capital markets through retirement plans and other tools, this is an issue that affects an overwhelming number of Americans. It is critical that the merger and the harmonization of the rulebooks result in better regulation of the industry and not a race to the bottom.

The globalization of markets—across product lines as well as geographic boundaries—through increasingly sophisticated trading in multiple markets and multiple currencies and other complex transactions, significantly raises the potential to obfuscate illegal activities and avoid timely detection. Daunting challenges arise from the rapid change that allows for a small group of individuals to exploit the system for gain, jeopardizing the whole market.

As such, reducing the duplicated efforts of two regulators must result in the use of the single SROs' increased resources and capacity to preclude this behavior. The ability of regulators and regulations to both anticipate and adapt to change while helping investors understand new products and how they compare is essential. A more holistic approach to regulation will surely produce greater results for all stakeholders.

Finally, the role of the SEC in overseeing and working with this new regulatory entity is vital to its success. Balancing the authority of the SRO and the SEC cannot be overlooked and I look forward to hearing from the SEC regarding the steps they have taken and will take in the future to provide adequate oversight of both this new regulatory body and the markets as a whole.

The hearing this afternoon is an opportunity to understand the structure of the regulatory regime with this new entity and plans for moving forward to increase regulatory capacity both in member regulation and market surveillance. To this end, there are several key questions: what are the best regulatory models for SROs; how will the new SRO be better equipped to anticipate problems and ensure and enhance our markets' integrity and investor protections; how will the single, new SRO be financed; and what is the role of the SEC in effectively overseeing this new regulatory body?

This transaction is an important sign of the growing integration of institutions and world capital markets. As activities of capital markets become more seamless, the way this merger is dealt with will shape the way we deal with challenges arising in the future.