OPENING STATEMENT OF
CHAIRMAN PAUL E. KANJORSKI

SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE,
AND GOVERNMENT SPONSORED ENTERPRISES

HEARING ON "THE STOCK MARKET PLUNGE:
WHAT HAPPENED AND WHAT IS NEXT?"

MAY 11, 2010

Good afternoon. At today's hearing we will examine the frightening afternoon of May 6, one of the most volatile trading days in history. Within minutes, stock market indices dropped precipitously, erasing more than $1 trillion in capitalization before recovering. While we may not yet have all of the facts about these events, we must quickly analyze what happened and embrace reforms in order to restore market integrity and promote investor confidence.

Going back to 2003, questions surrounding market structure have received considerable attention in this Subcommittee. Many of the issues we have previously explored remain just as relevant today, especially the long-standing debates of man versus machine and price versus speed. These prior hearings have also taught me that our regulators must remain nimble by continuing to adapt market structure rules to respond to an ever evolving environment.

Technological advances have dramatically altered the way Wall Street operates. Such progress is natural. For the United States to continue to lead the world's capital markets, we must continue to encourage innovation.

But, change also can have its downsides. Many have cited the role of computers in contributing to and exacerbating last week's gyrations. In recent years, high-frequency trading has exploded. Barely a blip two decades ago when technology constraints and growth last crashed the markets, automated traders today move in milliseconds and make up as much as two-thirds of daily trading volume. Their decisions to trade -- or not to trade -- can produce real consequences. We, too, have moved from a model of two major trading centers to an electronic network with dozens of marketplaces for trading equities, creating new headaches for regulators.

The ascendancy of computerized trading and automated exchanges in our capital markets appears to have created a plot as intriguing as *2001: A Space Odyssey*. Today, however, is 2010, and we must figure out how to effectively balance artificial intelligence with human judgment. This hearing will help us to achieve that goal. It can also help us to determine how to harness technology to create effective audit trails for regulators.

Somewhere along the way, competition among exchanges, alternative trading systems, and others has additionally led to increased fragmentation. As old trading methods have given way to modern techniques, the rules governing our market architecture have lagged behind. We now must better integrate our markets. In this regard, I am encouraged that regulators and exchanges are already working together to adopt new rules for creating uniform single-stock circuit breakers and updating archaic market-wide trading halts.

Most importantly, we must protect investors' interests. They deserve fair and orderly markets, which the Securities and Exchange Commission exists to ensure. Despite this mandate, the markets were hardly fair or orderly during last Thursday's roller-coaster ride.

In this turmoil, some investors lost mightily. One recent news story highlights a couple who lost $100,000 because their trade cleared at the wrong moment during Thursday's chaos. This turbulence additionally triggered costly stop-loss orders for too many investors and may have placed others in unintended short positions as trades unwound. The market mayhem also unfortunately revealed the arbitrariness of the process for identifying and canceling "clearly erroneous" trades. Moreover, the decision to rescind some trades may have ultimately benefited those who aided and abetted the plunge. This is wrong. They placed a bet and deserved to lose.

Although stock values quickly sprung back this time, the experience may prove quite different next time. A ghost-in-the-machine scenario in which an enormous computer sell-off sparks a vicious cycle of selling and panic seems completely plausible. To thwart this doomsday hypothetical, regulators must act with great speed and great care to promulgate new rules. The SEC has already begun this process with its January concept release on market structure.

In sum, our witnesses can shed light on the 20 harrowing minutes of last week's flash crash. They can also explain how we should respond to technological advances, increased competition, and other market evolutions in ways that best protect investors. I thank each of the witnesses for appearing, especially on such short notice, and am eager to hear their testimony.