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DOES INFORMATION TECHNOLOGY MAKE THE STOCK EXCHANGE TRADING FLOOR OBSOLETE?

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* N E W D O C *

PANEL 4

DOES INFORMATION TECHNOLOGY MAKE THE STOCK EXCHANGE TRADING FLOOR OBSOLETE?

Panel Chair: Henry C. Lucas, Jr., New York University, USA

Panelists: R. Steven Wunsch, Wunsch Auction Systems, Inc., USA
James L. Cochrane, New York Stock Exchange, Inc., USA
Raymond Killian, Jefferies and Company, USA

R. Steven Wunsch, President and CEO, Wunsch Auction Systems, Inc.

Trading floors are likely to disappear because they centralize trading too well for dealers and not well enough for investors. Traditional continuous dealing will go upstairs because the dealers who benefit from fragmentation and control the structure of continuous dealing prefer the reduced efficiency of OTC structures to the central floor. Call markets, which bypass dealers, can achieve the full temporal and spatial centralization investors prefer only through automation. Thus, automation takes investors two steps forward with the call market and only one step backward with the OTC market.

James L. Cochrane, Senior Vice President, New York Stock Exchange, Inc.

All equity markets can be placed into one of three categories. The first type is a physically convened auction. There are many variations: The Tokyo and Toronto floors do not operate exactly the same as the New York Stock Exchange floor; but, when you start sifting through what is really happening in each, there are no fundamental differences. Secondly, many equity markets are dealer markets, linked by screens and telephones: NASDAQ is the variant in the US; SEAO is Britain's. Finally, there are computerized matching systems — the first was the Toronto CATS system — and these types of systems have proliferated to many parts of the world.

What is the role of technology in each of these three systems? In each of these three approaches current and anticipated technology is accompanied by certain advantages and disadvantages. What are the advantages and disadvantages in each system and how should we think about them?

Raymond Killian, Senior Managing Director, Jefferies and Company

The role of technology and the need for a trading floor can be viewed through three questions.

1. Is the central market place a series of electronic links as opposed to a trading floor?
2. Is liquidity reduced by alternative trading systems or has it simply changed its address?
3. How can technology aid the investor in finding liquidity and reducing market impact and transaction costs?