

THE SECURITIES AND EXCHANGE COMMISSION AND ITS WORK

ADDRESS

of

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THE SECURITIES AND EXCHANGE COMMISSION

The Securities and Exchange Commission should have been instituted years ago. It is one of the crowning glories of Mr. Roosevelt's administration.

Its need is self-evident if we review the events of the last decade. The keynote of the universe is change — eternal change in everything physical. From an election to a star nothing physical is stable. This instability has changed the whole face of the financial world.

Invention follows invention and discovery follows discovery with amazing rapidity. Each new discovery brings others like the growth of a tree where twigs grow to branches. The tree of discovery is never-ending. It reaches up toward infinity. It grows faster than man can adjust himself to the changing conditions it brings. It grows faster than man will be able to adjust his conditions.

Therefore, from year to year there will be increasing millions in the world for whom there is no employment and many millions for whom there is only scant employment.

This condition showed itself at the beginning of the recent depression. It has been growing worse for years. In the early days of our oldest citizens the population was smaller. Most of the work was done by hand. So prices were good and labor was plentiful. Investments were comparatively local and secure.

The railways came and opened up the West. The steamship came and carried our commerce to peoples less advanced in manufacture and production. The automobile and the airplane came, the telegraph and telephone became universal and the radio brought quick facilities for national advertising and propaganda both good and bad, and the commercial world shrunk in time and space. What took months to accomplish before now took only hours or minutes. Other nations equipped themselves to manufacture and produce at home. Mass production on the plains made the small farm less profitable. Chain stores replaced the corner grocery and drygoods store. Great transactions could be accomplished in short time. Team work in research took the place of the long-haired inventor, and the old world turned to incessant change. Men of crooked tendencies issued worthless securities millions on millions.

There is no such thing as normal times. The financial world swings like a pendulum continually from prosperity to depression, from optimism to despair. It does not linger on the normal or average line, but like the pendulum its greatest velocity is when crossing that line. The impossible structures of false prosperity collapse of their own weight.

The prosperity we are now entering will offset the depression we have just passed. It will go further, for over the years the wealth of America is growing and there will be a yearly increase.

So in five or six years some people will be watching for this great wave of prosperity to begin to curl over the top and start downward, but the mass will be looking upward but not forward. Our memories are short.

While good works went forward and discovery increased at a rate far beyond what the world had ever known, the powers of evil were also at work and with deadly effect, all the way from carelessness due to optimism down to criminal robbery of the masses on a scale that staggers the imagination. Banks broke. Tremendous amounts of worthless securities impoverished our people and in millions of cases their life-earnings were swept away. The hold-up artist with the mask and gun paled into insignificance in comparison with this wholesale robbery.

The government in the emergency loaned huge sums to prevent a total collapse. The PWA was instituted to give employment on large projects, and the WPA to feed the unemployed and prevent starvation. Banks were made more stable.

The Securities and Exchange Commission was instituted to prevent the unloading of dishonest and worthless stocks and bonds on an unsuspecting public and in so doing to lessen the severity of future depressions.

In past years as individual small businesses were swallowed up by larger ones and men turned to employment with the fewer great surviving concerns they invested their life-earnings to a great degree in these great institutions and to a large degree in oil and mine stocks and bonds. Billions of dollars were invested in foreign securities. The interest on these stocks and bonds was expected to prevent poverty in old age. It seemed to be the one way remaining to have a part ownership in the business of the country.

The function of the Securities and Exchange Commission is therefore to protect the bondholder and the stockholder. It is the policeman of America's financial securities in stocks and bonds.

Under the law the issuer is required to give an honest disclosure in his prospectus of the full facts and conditions back of the issue of bonds or stocks in order that the investing public may buy with its eyes open. Under the law the Commission is not empowered to pass on the value or desirability of a bond or stock issue. That is for the buyer to decide.

Securities issued and sold wholly within a state, and that do not use the mails, do not come under the Commission, but are handled under the laws of that state.

The Commission is given control of trading on all stock exchanges. It is also given control of the issues of bonds of foreign nations.

In 1935 it was given the control of Utility Holding Companies which include the great electric power and gas concerns of the nation. This bill is still in litigation. It differs from the previous bills in that it allows the Commission to find whether the assets of the company issuing securities have a proper relation to the securities outstanding.

A rough approximation of the Securities involved as compiled by the Research Division of the S.E.C. is of considerable interest. The number of companies with securities listed on the New York Stock Exchange as at December 31, 1935 was 1,293, of which 1,127 were domestic and 171 foreign issuers.

The total number of common shares listed on the New York Stock Exchange as at the end of 1936 was 1,260,000,000 shares with an approximate market value of \$52,600,000,000. The number of preferred shares listed was 100,000,000 with an aggregate market value of \$7,300,000,000. Thus, there was a total of 1,360,000,000 shares with an approximate market value of \$59,900,000,000.

The total value of trading in stocks on all registered securities exchanges during 1936 amounted to 961,000,000 shares with a trading value of \$23,622,000,000. Of this total the New York Stock Exchange accounted for 702,000,000 shares with a trading value of \$20,387,000,000, or 86% of the total value of stock traded on all registered securities exchanges. The total value of trading in bonds during 1936 amounted to \$3,662,000,000 of which \$2,937,000,000, or 80% was on the New York Stock Exchange. Taking the trading in stocks and bonds together, all exchanges in 1936 traded \$27,284,000,000 worth of securities of which \$23,323,000,000, or 85%, was on the New York Stock Exchange.

At the end of 1935 there were approximately 450 management investment companies within the purview of the Investment Trust Study. These companies had total assets of about \$2,000,000,000. Complete data for 1936 are not yet available, but it may be estimated that total assets had increased to approximately \$2,500,000,000. In addition, there were over 100 fixed and semi-fixed investment trusts with total assets of around \$200,000,000.

The value of foreign bonds held in the United States has been estimated by the United States Department of Commerce at \$4,800,000,000 (par value) at the end of 1935, reduced by the end of 1936 to probably around \$4,400,000,000 to \$4,500,000,000.

From the effective date of the Securities Act of 1933 to December 31, 1936, foreign government bonds with total estimated gross proceeds of \$235,981,000 have been effectively registered with the Commission. This represents 2.7% of all effective registrations during the period.

During the same period \$136,668,000 of securities of mining companies and \$58,135,000 of securities of oil producing companies (not including companies whose chief activities are in the oil transportation or refining or distribution) have been registered, representing 1.6% and .7% respectively, of total registrations.

The number of stop orders, refusal orders and withdrawals from the effective date of the Securities Act of 1933 to December 31, 1936 are shown in the following table:

	<u>Number of Statements</u>	<u>Amount (\$000)</u>	<u>% of Aggregate Amount of Filings</u>
Stop orders	77	43,935	0.4
Refusal orders	1	333	0.0
Consent refusal orders	51	48,918	0.5
Withdrawals	<u>345</u>	<u>393,221</u>	<u>3.9</u>
TOTAL	474	486,407	4.8

Much interest is centering around the litigation on the Public Utility Holding Company Act. The final decision of this from the Supreme Court is expected in the near future. Section 11 of the so-called "death sentence" is the clause that really causes the fight of the utility companies.

No one will deny that a good man needs no police supervision, but he does need the policeman to guard against violence that might come upon him from others. The man whose thoughts and actions are wrong is the one that the policeman must watch. So, it is coming about that while the Securities and Exchange Commission is instituted to protect the bondholder and the stockholder, it is also protecting the man who is willing to put out bonds and stocks that have a real value back of them. It helps such a man by exposing the man who has little or nothing back of the securities he offers for sale. The nation wants to see the man with proper principles succeed. If the prospectus or his securities contains statements telling the complete truth, it will give his securities a prestige that they never had before. So it is that in many quarters those who originally opposed the S.E.C. are now pleased with its results and realize that it is a help and not a hindrance to any legitimate business. This will prove equally true in the case of utility companies including the big concerns in the electric and gas business.

Section 11 goes much further than the previous Securities and Exchange bills in that it allows the S.E.C. to determine the value of a security by studying the financial condition of the concern. To determine the value of a concern requires more or less a valuation of its properties. It seems very probable, therefore, that the investor will expect more from the S.E.C. in the case of utility company offerings and will take it for granted that there is the proper value back of each security. In other words, it will put a considerably greater load on the Commission than it now has in requiring an honest disclosure of all facts as specified by the previous laws.

When holding companies first came into existence they were organized to take over several subsidiaries in which there were different programs of construction and operation, in order that the holding company might give an over-all service that would be available for each subsidiary. The trouble began when this was turned into a racket. A small investment in a holding company got the control of values hundreds of times as great. The pyramiding was carried on until the structure fell of its own weight at the beginning of the depression. It is evident that in addition to the loss of the public, amounting to millions on millions of dollars, there was in many cases a real loss to the subsidiary which was milked for the profits of the holding company. It is reasonable to expect that many of these will think of the S.E.C. as one who will help them to be able to do a proper business. Wrong doing of a group is always brought about by a few and it is these few that will be gotten rid of. Many of the concerns have already taken steps themselves to clean up. In spite of the fact that litigation is pending 82 of the holding companies have registered with the Commission. They are mostly relatively small concerns, but some of the recent registrations are from those of considerable size.

The work of the Securities and Exchange Commission is entirely that of protecting the investor. It has nothing to do with the question of rates for electricity or gas in any way. There is one place, however, where the securities of electric and gas concerns would be much greater for the investor, much better for the consumer and much better for the utility itself when panic comes. The utility should keep its real value more nearly equal to its outstanding securities. This has been a matter largely under state regulation, but the depreciation allowances annually given to these utilities have not been applied for the purpose intended. In the meantime structures and machinery have become obsolete or rotted to the earth. If the utility company would use a reasonable depreciation allowance to pay off part of its securities outstanding, it would be better for itself and for the consumer and particularly for the investor. There would be a dollar value for every dollar in the security. This seems to be the meaning of Section 11 of the Public Utility Holding Company Act.

With the savings of the masses made secure in our banks, especially with the insurance brought about by the Social Security Law, it remains to put the securities of the nation on a more honest level and free from the false statements that bait an innocent buyer. Then, when we go again from optimism to despair in the next depression, that depression will have been deprived of its severity. Everyone should work to this end.