CURRENT DEVELOPMENTS AT THE SECURITIES AND EXCHANGE COMMISSION

Address of

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before the

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of the

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When I addressed the annual meeting of the Section on Corporation, Banking and Business Law of the American Bar Association on August 23, 1955, just a year ago, I discussed in considerable detail the problems faced by the Commission in attempting to administer our rules under Section 14 of the Securities Exchange Act of 1934 in proxy contests for the control of the management of listed corporations. Proxy problems were uppermost in people's minds at that time because of a number of notable proxy fights and difficulties which the Commission had experienced in applying rules written in general terms for the typical uncontested proxy solicitation to the long drawn-out battles for corporate control.

In that talk a year ago, I outlined revisions of the proxy rules to deal with proxy contests which the Commission was considering. In the months that followed, after receiving public comments and holding a hearing, the Commission formulated its revised proxy rules for contests and adopted them effective on January 30, 1956. 1/ These rules have been in effect during the 1956 proxy season. We believe they have worked well. The number of contests this year is running about the same as the years before. Although all of the contests under the new rules have been fought with vigor by the contesting sides, none broke out of bounds so far as our rules were concerned. The Commission's hand in administering the rules was greatly strengthened by the boost which the Court of Appeals for the Second Circuit gave us in sustaining the Commission's authority under Section 14. In an opinion handed down in January 1956, the Court said: "The Congress has clearly entrusted to the Commission the duty of protecting the investing public against misleading statements made in the course of a struggle for corporate control." 2/

The one aspect in which we are still having trouble under the proxy rules is where there appears to be a concentration of stock affiliated with soliciting persons but hidden in street name or by foreign financial institutions, thus making impossible our efforts to determine actual beneficial ownership. This is a problem to which we are giving careful thought and in which Committees of the Congress have expressed concern. So much for proxies.

At this meeting I have been asked to discuss current developments at the Securities and Exchange Commission. I will divide these current developments into four categories -- legislation, rule and form revisions, agency administration and, last, the role of the Commission in the capital markets.

In 1956, the Commission had its busiest legislative season in many years. Partly this was of our own making, and partly it was responsive to legislative drives that originated elsewhere in Government. First,

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1/ Securities Exchange Act Release 5276.

2/ SEC v. May, 229 F. 2d 123.

we, ourselves, brought forward to the Congress proposed amendments of the Federal securities laws which would have strengthened our enforcement capabilities. In the Commission we refer to these as "technical amendments" because they would not in any way change the basic philosophy or general effect of these statutes. Rather, they are designed to strengthen the jurisdictional provisions of the statutes, to correct certain loopholes or inadequacies, and to facilitate criminal prosecutions and other enforcement activities. We consider these proposals to be vital to the effectiveness of our enforcement work. We were gratified, indeed, that they were sponsored in a bill 1/ in the House of Representatives by the Chairman of the Interstate and Foreign Commerce Committee, Representative J. Percy Priest of Tennessee. I consider this to be of great importance to the ultimate success of this legislation because the Interstate and Foreign Commerce Committee of the House of Representatives has traditionally been the Committee in which the Federal securities laws, including the Securities Exchange Act of 1934 which established the Commission, have originated. I am personally deeply appreciative for Representative Priest's sponsorship of this legislation. A counterpart bill 2/ was introduced in the Senate by the Chairman of the Committee on Banking and Currency, Senator J. William Fulbright, at our request. Because of the pressure of other Congressional business, no hearings could be held on these proposals at the last session, but we are confident that they will be given consideration in the next Congress.

Some securities industry groups have expressed doubt about the wisdom of certain of the amendments we have proposed. We are hopeful that technical difficulties can be ironed out in the Committees, and that the basic objectives of this legislation will be supported by the securities industry.

Secondly, the Commission, responsive to legislation which has been in the Congress off and on over the past ten years, and to a bill 3/ which was introduced by the Chairman of the Banking and Currency Committee of the Senate at the close of that Committee's 1955 stock market study, engaged in the first complete and objective factual study of the financial reports and proxy soliciting material furnished to stockholders of about 1,200 large publicly held corporations the securities of which are not listed and traded on national securities exchanges and thus are exempt from the financial reporting, proxy and insider trading provisions of the Securities Exchange Act of 1934. 4/

1/ H. R. 11129

2/ S. 3195

3/ S. 2054

4/ Report of the Securities and Exchange Commission on S. 2054 to the Committee on Banking and Currency, U. S. Senate, May 25, 1956 (Committee Print, GPO No. 77908).

The bill, which would subject to these provisions corporations having 750 or more stockholders, or debt securities of $1 million or more outstanding in the hands of the public, and $2 million of assets, has likewise been discussed by me in a number of talks before different groups throughout the country. Briefly, our report, furnished to the Banking and Curreny Committee in May, endorsed the enactment of the financial reporting, proxy and insider reporting provisions of the bill, but recommended deferral of any action on the application of the insider short-swing-trading recovery provision of the Securities Exchange Act to these unlisted securities until further study of this complex and difficult subject could be made.

The fundamental basis for the recommendations we have made in regard to this legislation is that the public investors' position in the securities of the 1,200 companies covered by the bill would inevitably be improved by adherence by these companies to the financial reporting and proxy standards of the Securities Exchange Act and by the disclosure of insider trading transactions. But we could not, on the basis of the limited data available at this time, recommend the extension of the insider short-swing trading recovery provisions because of the possibility that their impact on the markets for the securities of a portion of the companies might adversely affect existing trading markets and possibly the new issues market should such companies seek to raise new capital. This we regard as of great importance, as the 1,200 companies' assets aggregate approximately $35 billion. They are not "little business" and the public has a great interest in their financial and corporate practices and the marketability of their securities.

Unfortunately, there is a split within the securities industry on the desirability of this legislation. Generally speaking, the stock exchange and financial analyst segments of the financial community support it, but the National Association of Securities Dealers, Inc., which is the only industry group registered under the Maloney Act amendments of the Securities Exchange Act of 1934 to provide industry self-regulation in the over-the-counter markets, has reversed positions which it took in 1946 and 1950 and is now opposing this legislation. Opposition also has been expressed by the National Association of Manufacturers and manufacturers associations of a few states.

We appeared before the Senate Committee in June and the Committee voted to take no action on the bill. However, we are hopeful that this legislation will again be considered in the next Congress.

Another area in which we have been extremely busy on Capitol Hill is with respect to various bills to repeal or amend Section 3(b) of the Securities Act of 1933. This section provides that the Commission may from time to time by its rules and regulations, and subject to such terms and conditions as may be prescribed, add to the classes of securities exempted in Section 3(a) of the Act, such as securities issued by the United States or other governmental organizations, commercial paper,

building and loan association obligations, securities the issuance of which is subject to approval under the Interstate Commerce Act and certain other specifically exempted classes, any class of securities if the Commission finds that enforcement of the registration provisions of the Act with respect to such securities "is not necessary in the public interest and for the protection of investors by reason of the small amount involved or the limited character of the public offering," provided no issue shall be exempted the aggregate offering price of which exceeds $300,000.

The prime mover of this legislation is Representative John B. Bennett of Michigan, and his desire to afford the best possible legal protection to investors in small issues under the Federal securities laws is something for which he can only be commended whether or not one agrees with the particular legislation for which he has so strenuously fought in the Congress. Representative Bennett's first bill, introduced on April 21, 1955, 1/ would repeal the exemptive provision entirely.

Hearings were held on this subject by the Subcommittee on Commerce and Finance, at which we testified, off and on from July 20, 1955, through May 9, 1956. We opposed this bill repealing the exemption although these hearings developed a good deal of factual information about the abuses of the public in penny stocks with which we have been attempting to deal by strengthening our filing requirements under the exemptive regulations and by stepping up our enforcement activities in our field offices. We opposed the repeal of the exemption on the ground that it would adversely affect the raising of capital by legitimate small business enterprises.

On February 16, 1956, Representative Bennett introduced another bill 2/ which would apply to persons associated with an offering under our exemptive regulations the same strict civil liabilities that pertain to persons associated with an offering under full registration. 3/ We likewise opposed this bill on the ground that it would in substance require the equivalent of full registration for small issues and that this would have the indirect effect of repealing the exemption.

It is a rather interesting commentary on this bill that it seeks to impose on persons using offering circulars under a statutory exemption from registration far more drastic civil liability than is imposed on persons with respect to summary prospectuses which would be used in the sale of fully registered securities under the proposed summary prospectus rule, which I will discuss in a few minutes. The 1954 amendments to the Securities Act specifically exempt the summary prospectus from the full statutory registration statement liabilities in order to encourage the use of summary prospectuses in the broad dissemination to investors of facts pertaining to securities being offered.

1/ H.R. 5701

2/ H.R. 9319

3/ Section 11 of the Securities Act of 1933.

However, the Committee on Interstate and Foreign Commerce favorably reported this bill 1/ and, although it was passed over in the last days of the Congressional session, I have every reason to believe it will be introduced in the next Congress.

To meet what we considered to be the objectives of this legislation without its drawbacks, Representative Arthur G. Klein of New York on May 17, 1956, introduced a bill, 2/ which we supported, which would have enlarged the civil liabilities of persons responsible for misstatements or omissions of material facts, or for misrepresentation or fraud, in connection with exempt offerings, but which would not have gone to the lengths of the Bennett Bill which applies liability virtually of a fiduciary nature to all persons associated with an offering whether having knowledge or being responsible for misstatements, omissions or misrepresentation or fraud, or not. Only three members of the Committee voted for the Klein bill, but we believe its enactment would be clearly in the public interest and hope that it will be sponsored in the next Congress.

There has been other legislation, which I will mention briefly. Various proposals to amend the Public Utility Holding Company Act of 1935 3/ in connection with exempting groups combining for the development of nuclear reactors from possible requirements under the Holding Company Act failed, but, responsive to the Committees of the Congress that considered this legislation, the Commission using its rule-making powers under the Holding Company Act on July 13, 1956, adopted a revision of its so-called Rule U-7 4/ that accomplishes this result for groups organized not for profit and developing reactors in the experimental stage. We believe we have made a significant contribution to the development of atomic energy for peaceful purposes by this revision of our rules under the Holding Company Act. Legislation which would have exempted groups developing hydro-electric generating facilities from Holding Company Act standards we opposed and it was not pressed in the Congress. 3/.

There has, of course, been a great deal of other work for Congressional Committees and individual Senators and Representatives, particularly in the fields of anti-monopoly, pension and welfare funds, freedom of

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1/ H. R. Rep. No. 2513, 84th Cong., 2d Sess. (1956).

2/ H. R. 11308.

3/ S. 2643; H. R. 9743; Sen. Rep. No. 2287, 84th Cong., 2d Sess. (1956); H. R. Rep. No. 2694, 84th Cong., 2d Sess. (1956).

4/ Public Utility Holding Company Act Release 13221.

information, government operations and manpower utilization. In truth, as a bipartisan independent agency we spend a very considerable portion of our time, and properly so, assisting the Congress. This is a most important phase of our work.

In rule and form making, the Commission has been extremely active and a large number of form revisions and simplifications have been made. I will not take time to detail these because I want to spend a few minutes on some of our current proposals, first in the field of small issues. As soon as the Committee on Interstate and Foreign Commerce completed its action on the Bennett and Klein Bills pertaining to Section 3(b) of the Securities Act and before the close of the Congressional session, we adopted revisions 1/ of our exemptive regulations designed to clarify the disclosure requirements for letters of notification and offering circulars and to strengthen our enforcement capabilities. We also promulgated further proposed revisions 2/ which, if adopted, will have the effect of curtailing the availability of the exemption. These proposals should receive the serious attention of business groups and the bar. They are made in recognition of the serious abuses of the investing public -- the fraud, the high pressure selling, and the uncontrollable long distance telephone sales techniques, particularly in penny stocks, that have been inflicted on the American public by brokers, dealers and promoters taking advantage of our exemptive regulations. The market action of penny stocks is relatively more drastic and volatile than the market action of securities having a higher unit value. The penny stock is not an investment medium, and in our proposed revisions, which are now out for comment, we are posing the question whether it is possible that the offering of an issue can be said, as the statute requires, to involve a small amount or to be of limited character when, typically, it may be an issue of three million shares at ten cents a share which will in fact be merchandised not by the use of the offering circular but by brokers, dealers and promoters using the telephone to lure unsophisticated people into securities of that kind. The true purpose of the exemption provided by the Congress for small issues is to facilitate the capital formation process for legitimate small business enterprises. It seems clear that too many of the penny stock issues have reflected an abuse of the exemptive rules in the sale of securities for purposes not consistent with the basic Congressional intent.

The Commission was particularly interested that the President's Cabinet Committee on Small Business, in a progress report to the President of August 9, 1956, recommended that the Congress raise the exemption from $300,000 to $500,000 but added the significant comment: "In order to prevent the proposed change from reducing protection to investors, the Commission should limit the exemption privilege to seasoned businesses and should withhold it from issuers of so-called 'penny stock'."

1/ Securities Act Release 3663.

2/ Securities Act Release 3804.

Implementing our long standing recognition of the great importance to small business of access to the capital markets, particularly for equity money, not burdened by unnecessary governmental restrictions, on August 16, 1956, the Commission established in our Division of Corporation Finance in Washington a new Branch of Small Issues which will be responsible for supervising and coordinating the examination by the staff, both in Washington and in the field offices, of filings for exempt offerings not exceeding $300,000 in amount.

Another great step forward which the Commission is now taking was made possible by the statutory amendments of 1954, 1/ which first provided for the use of summary prospectuses. We have recently circulated for comment a proposed summary prospectus rule. 2/ This is an objective which we have long had in mind as we believe it will assist in the disseminating to the investing public generally information about the business and finances of companies bringing new issues into the market for primary distribution. It has always been the basic objective of the Securities Act that information about securities being offered be made available as broadly as possible to the public in advance of sale, but this over the years was restricted, because of the statutory prohibition against pre-effective offers and because of the full statutory prospectus requirements, until 1954 when the statute was amended to give the Commission more flexibility for rule making in this area. These 1954 amendments provided, subject to Commission rules, for pre-effective offers (but not sales) by means of expanded newspaper advertisements -- the old fashioned tombstone now is considerably more informative than it used to be 3/ -- and by summary prospectuses filed as part of the registration statement. The amendments also eliminated certain other complexities and restrictions which served no useful purpose so far as the investing public was concerned and were burdensome to business.

These 1954 amendments in my opinion represent the most significant step forward taken since the Securities Act was enacted in 1933 in pursuance of the original basic Congressional purpose of providing the public investor with business and financial information about new issues on which to base his decision whether to buy the securities or not. It is the public investor that the Securities Act seeks to protect, but the protection sought to be afforded, absent fraud in the offering, is to put the investor in an informed position to make his own investment decisions, not to protect him against making his own decisions or to have a Federal agency make his decisions for him.

1/ P. L. 577, 83d Cong., 2d Sess.

2/ Securities Act Release 3674.

3/ Securities Act Release 3519

The Federal securities laws do not -- and I hope never will -- give the Commission power to pass on the merits of securities or forbid securities of speculative quality to be sold. I stress this because there are some who think the Federal agency should have such power, including the very able Attorney General of New York, Jacob Javits, who is in charge of administering New York's anti-fraud law, who so testified before the House Subcommittee in the context of the abuses in the offerings of penny stocks.

In passing I think it is interesting to note that these 1954 amendments, unanimously adopted by the 83d Congress, were sponsored in the Senate by Senator Homer E. Capehart of Indiana, who was Chairman of the Banking and Currency Committee, and Senator Prescott Bush of Connecticut, who was Chairman of the Subcommittee on Securities, at a time when Ralph H. Demmler was Chairman of the Commission, and they went through the House of Representatives under the watchful eye of Representative Charles A. Wolverton of New Jersey, who was then Chairman of the Interstate and Foreign Commerce Committee. Representative Wolverton was a member of that Committee when the Securities Act was passed in 1933 and has throughout one of the longest and most distinguished careers in the House consistently supported the Federal securities laws and the work of the Securities and Exchange Commission in aid of the investing public.

It is also interesting to note that the only change made by the Congress in these amendments as they went through the legislative process in 1954 was to reject, on motion of Representative John B. Bennett of Michigan, a proposed increase in the exemptive amount from $300,000 to $500,000, a proposal supported by the Commission and which actually passed the Senate in the interest of facilitating the financing of legitimate small business enterprises, particularly those seeking equity capital.

But in connection with the use of summary prospectuses, and the opportunity their use should provide to disseminate to the public information about new issues, we also ask you to consider the responsibilities of industry, investment bankers and the bar to insure that this new instrument for wider and more effective communication with the buying public is not used improperly or in any way employed to discredit the standards and practices of the securities industry in which I believe the public in general has great confidence.

We have made a number of registration form simplifications, some of which are still pending, particularly a revision of a registration form for newly formed enterprises in extractive industries. 1/ This is particularly pertinent because it would fit in with any further curtailment of the availability of the $300,000 exemption. The form is designed to be easily understood and completed by persons registering such issues.

1/ Form S-3, Securities Act Release 3668.

We also have pending a revision of the Commission's Statement of Policy with respect to investment sales literature. 1/ This has resulted in part from industry dissatisfaction with the Statement of Policy adopted by the Commission in cooperation with the National Association of Securities Dealers in 1950, and revised in 1955, but more important because the Commission after very intensive study has come to the conclusion that the Statement of Policy should be re-examined from the standpoint of its relationship to the basic disclosure and anti-fraud principles of the Securities Act. A number of meetings and conferences with industry committees during the past year did not produce agreement either between the Commission and industry representatives or agreement among various industry spokesmen themselves. Accordingly, having in mind the great public interest in investment company sales literature and sales practices, the Commission determined to make this a matter of public participation and we have put out a proposed Statement of Policy for comment and scheduled a hearing. We seek the views of all members of the public who can contribute on this subject.

One of the cardinal principles of the Statement of Policy with regard to investment company sales literature is that investment income, securities profits, and the asset value of shares should not be combined for the purpose of portraying an over-all result in terms of a rate of return or a percentage yield on the investment. In the proposed revision, we seek to implement this principle by requiring that charts or tables shall show separately the three elements involved in investment company performance, namely, investment income, capital gains distribution, and asset value reflecting unrealized appreciation or depreciation.

Another proposal in which the investment banking community and the bar should be interested, which we have presently pending for public comment, is our Statement of Acceleration Policy 2/ with respect to the time at which a registration statement will be made effective by the Commission under Section 8(a) of the Securities Act. A number of Commission practices with regard to withholding acceleration have developed over the years, the legal validity of some of which has been challenged by members of this Section of the American Bar Association. Some individuals have even gone so far as to suggest that the statute be amended to take away from the Commission the power to

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1/ Securities Act Release 3669.

2/ Securities Act Release 3672.

deny acceleration in certain circumstances.

We have felt that administrative practices which have developed over the years should be made known to the public and subjected to public scrutiny. We have put out this Statement of Acceleration Policy particularly expecting comments from the bar, but we are not dedicated to adopting as Commission policy any of the policies which have been in effect in the past if we find in our consideration of the subject that any are unsound.

In the interest of fair disclosure, I should mention to you that there are several policies regarding acceleration which have been developed in the last year to meet administrative problems. These pertain to our unwillingness to grant acceleration where during the pre-filing or post-filing but pre-effective period there is evidence of "gun jumping", that is, pre-effective sales which are illegal. Also, we have been withholding acceleration where one or more of the underwriters does not meet the test of financial responsibility required under the Exchange Act, and, most important, we have been withholding acceleration where apart from the processing of the registration statement itself we have been making an investigation of the issuer or the underwriter for illegal or fraudulent activities. We have been acting in this area case by case and believing, as we have done so, that we are fulfilling the over-all objectives of investor protection expressed in the Securities Act.

Passing from rule and form revision to administration of the agency, I will call your attention briefly to the conditions that have prevailed. Under the Securities Act, our Division of Corporation Finance in Washington has examined the largest number of registration statements, almost 1000, covering the largest dollar amount of new issues of corporate securities - $13.1 billion in the fiscal year ended June 30, 1956 - of any period of the Commission's history. The record year in the decade of the 1940's was 1946 with 750 registration statements for $7.4 billion, and the average was about 450 filings covering $3.8 billion a year. Also, our Division of Corporation Finance has examined proxy soliciting material covering more than 2000 proxy solicitations, a record. Also, the Division of Corporation Finance has had supervisory policy making authority in the field of small issues, in fiscal 1956 numbering about 1450 for about $273 million of securities being offered to the public under our exemptive regulations.

The Division of Trading and Exchanges has had regulatory authority over an increasingly large number of registered broker-dealers. The figure is now up to approximately 4600. Three years ago it was about 4100. Also, the market surveillance function of the Division has had to cope with the most active trading markets, both on exchanges and over-the-counter, of many years. For example, in 1955 the number of shares traded on the New York Stock Exchange was about 1.2 billion and their dollar value about $38 billion, almost double the figures of two or three years ago. The market surveillance work conducted by our New York Regional office and by our Division of Trading and Exchanges is of great importance in the total impact of the Commission's work on the securities markets during the present period of activity on the exchanges and the over-the-counter markets. It is here that the minute-to-minute trading reported on the stock exchange tickers is watched and the daily quotation sheets read to detect unusual and unexplained price movements so that anything that suggests manipulative activity can be immediately followed up. Contrary to popular impression, many stock movements that have later become of great public interest because of some dramatic event, such as the decline in the Bellanca stock, or the recent surge in Northeast Airlines, have been under scrutiny by our staff almost from the moment that the movements developed, and we are running as a matter of routine trading quizzes and some full scale investigations in a considerable number of stocks. In addition to uncovering cases of fraud and manipulation, this market surveillance work by the Commission has a deterrent effect on would-be violators. The criminal penalties for fraud and for manipulation of securities prices are severe. The Enforcement Branch of the Division of Trading and Exchanges has had supervisory responsibility for a very large increase in broker-dealer inspections, securities investigations and fraud and market manipulation work.

The Division of Corporate Regulation has found no diminution in the work of supervising registered holding companies and investment companies, all of which have been increasingly active and expanding.

Our nine field offices where the exemptive regulation filings for new offerings are made, where interpretations of law are given

to the public, and where the broker-dealer inspections and investigative and anti-fraud work are done, have been more active than in any year in memory. Their work has assumed tremendous importance from the standpoint of the public interest because of abuses incident to the marketing of certain types of securities, such as penny stocks. In addition to the perennial problem of illegal distributions, mostly by long distance telephone from Canada, there has been a recent upsurge in high-pressure telephone "boiler-room" selling in certain parts of the United States, and our enforcement offices are engaging actively in programs to cope with this problem.

Under these circumstances, it has been most gratifying to me that both the President and the Congress have supported our efforts to reverse the 15-year trend of successive reductions in the staff of the Commission by granting us increases of personnel in fiscal 1956 recently ended and in fiscal 1957 just begun. Many people don't realize that the staff of the Commission was reduced from over 1800 in 1942 to just under 700 in 1955. Reductions were justified as the Commission learned more effectively and efficiently to handle its statutory responsibilities, and as market conditions permitted, but in the light of present conditions in the securities markets it seems to us that a strengthening of the staff of the Commission is called for in the public interest. Our 1957 appropriation is such that we expect to be back up to a strength of 800 at the end of this fiscal year, and we invite the support of the organized bar in our efforts to assure that the basic policies of the Congress enacted in the securities laws for the protection of the investing public shall continue to be effectively discharged by this agency. To do this the Commission must continue to be adequately staffed with professional people, lawyers, accountants, analysts, engineers, of fine capability, and the agency must be attractive as a place in which to work. The recent work load has imposed a real burden on our staff. It is particularly important as the service length of the staff grows that there be replacements in the lower age groups, and this year for the first time we have been actively recruiting from the law schools and business schools and are beginning to train and develop a new generation of Commission professional staff. We hope that many of these young people will make Government service a career.

One aid we have had in the past year was the 7 1/2% increase in the statutory pay rates for the staff which became effective in March 1955. 1/ Also, in July of this year, by the Executive Pay Bill 2/ Commissioners' salaries were increased from $15,000 to $20,000, with an added $500 for the Chairman, which will undoubtedly be of help in attracting and holding qualified Commission members. However, it should be noted that this legislation does not maintain that parity of salaries of members of an independent Commission having quasi-legislative and quasi-judicial powers with salaries of members of the Congress and the Federal District Judges which has been in effect during 18 of the 22 years of the Commission's history, and we so advised the Senate Post Office and Civil Service Committee in commenting at its request on the Executive Pay Bill. It seems to me that the bar has a great responsibility in this field.

We were extremely gratified that our 1956 and 1957 budget estimates were approved in full in the President's Budgets for those years, and our 1957 appropriation by the Congress for the first time in the history of the Commission was in the exact amount requested. We are particularly gratified by the interest and support we have received from the Independent Offices Subcommittees of the Appropriations Committees of the House of Representatives and the Senate. Representative Albert Thomas of Texas, Chairman of the House Subcommittee, took the time to visit one of our important field offices personally to observe our enforcement work, and Senator Carl Hayden of Arizona, Chairman of the Senate Committee on Appropriations, and Senator Everett M. Dirksen of Illinois, a member of that Committee, have deeply concerned themselves with our appropriation requests and the importance of our work for the investing public.

Finally, let me say a brief word about the role of the Commission in the capital markets. There has never been a time, I believe, when our function in assuring to public investors in securities sold and traded in interstate commerce basic information about the issuing companies, and providing to investors market conditions constantly watched for evidence of manipulation and fraud, has been more important to the American economy. We see on all sides the burgeoning of this economy. We see the gross national product breaking through the $400 billion annual rate. A considerable portion, in excess of $60 billion, of this gross national product is applied for capital purposes, that is to say to provide plant facilities, tools and working

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1/ P. L. 94, 84th Cong., 1st Sess.

2/ P. L. 854, 84th Cong., 2d Sess.

capital needed by American industry if it is to respond to the increased productivity and the higher standard of living of which the American people are capable. Although the major portion of this $60 billion investment component of the gross national product is provided from internal sources, such as depreciation accruals and retained earnings, nevertheless a very large amount of money, between $7 and $8 billion annually, must be provided by investment capital raised in the capital markets from the savings of the American people.

The confidence of the American people in the basic integrity of the capital markets is an important factor in their willingness to save and to invest their savings in the securities of American corporations. The contribution which the Federal securities laws, as administered by the Securities and Exchange Commission, makes towards the integrity of the capital markets is vital to the success of these markets in our free enterprise system.