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ADDRESS

of

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Before the

STOCK BROKERS' ASSOCIATES OF CHICAGO

Chicago, Illinois

November 15, 1945

When I received your president's kind invitation to participate in one of your meetings I welcomed the opportunity to come to Chicago and exchange views with you. There is great value to be derived from these meetings. Much of it would be lost, however, were we to confine ourselves to a statement of the things on which we can all agree, and ignore matters which, although controversial, are nonetheless both timely and fundamental. In speaking here today I run the risk that you may think I am expressing the sentiments of the Commission. I make no pretense to do so. What I say is on my own responsibility and should not be understood as expressing the official views of the SEC.

Moreover, I am sure that you will find that the viewpoint which I express is not in all respects the viewpoint of a person who makes his livelihood from the business of buying and selling securities. That viewpoint is set forth often enough in the speeches and writings of persons who are engaged with you in the securities business. I hope that I approach the problems which concern me in my official capacity with an open mind. But if it can be said that my experience has given me a special point of view, I hope that special point of view is in the interest of the investing public whom history demonstrates needs protection in matters involving the purchase and sale of securities. Although in the final analysis you and your customers have a common interest in corporate securities and their issuers, that common interest is frequently obscured by the private interests of one person or another to the point that, of two persons to a contract, one must be protected against the other. I know of many cases in which public buyers and sellers of securities have needed protection against professionals engaged in the securities business. I know of only one fraud case in which the professional needed protection against the customer, and it is a matter of record that the SEC put that customer in jail.

Much has been said and written concerning the contributions made by those in the securities business to our economic development. I do not underestimate them. The rise and expansion of our industries were in the past due in no small measure to the success of our investment banking system which gathered together the public's savings and directed their flow into the productive uses of business and commerce. The future health and growth of our system of free enterprise require that this process continue at a higher rate than ever before. Truly your business and our capitalistic system are inseparable. One could not exist without the other.

However, we cannot afford to ignore the fact that in a sense all our economic and political institutions are on trial today. As the world shrinks in size with the advance of communication facilities, and as the peoples of the world draw closer together because of our common necessity to find an international way of life which will preserve the peace of the world, it is inevitable that the contributions which our institutions are making toward our spiritual and material advancement will be compared and contrasted more than ever with the customs and institutions of other people. You and I are dedicated to the preservation and advancement of our democratic form of government and our capitalistic system. All of us, I am sure, are convinced that our political and economic system is the

which has yet been devised for the promotion of our public welfare and the preservation of our private liberties. Our convictions make it imperative that we do nothing to undermine those institutions.

What is the connection between your business and the preservation of those institutions? The most obvious connection is the one I have already suggested. To the extent that you help to raise capital for industry and to gear it to a high and increasing level of production, you are insuring economic and political stability. But you have another role in the preservation of our institutions, one which is at least as important as the job of raising capital. That is the task of instilling and maintaining public confidence in our securities markets and our securities issuers. In a real sense, you men who offer securities for sale to the public are tendering them a share in capitalism. You are asking the American people to invest their savings in American enterprise. You are urging them to place their confidence in our securities markets and in our corporate issuers. You are saying to them that our markets, our securities, and their issuers are all that they seem to be; that they are free of fraud and undisclosed special privilege.

There have been times in the past when the American people, after responding to the appeal of investment bankers and securities salesmen, have felt that they had been betrayed. Most of us still preserve a vivid recollection of the late 20s and early 30s when the practices of certain of our financial leaders created that sense of betrayal in the public mind. With that sense, public confidence in American business was shaken to its very roots. There have been few occasions in our history when the stability of our institutions was more seriously threatened. All of us are resolved that there will never be a repetition of the events of those days. We are proud that brokers and dealers, both individually and through their organizations, have joined forces with the state and federal governments in overhauling our investment banking machinery and purging our securities markets of the ills that almost brought about their destruction.

But the crucial question today is: Have we done enough? Are we satisfied that we have taken every reasonable precaution to prevent a repetition of the 20s? Are we sure that it will never again be justly said that carelessness or ignorance or greed has so shattered the confidence in our financial institutions of the individuals who comprise our nation as to imperil our political and economic system?

We have made progress. We are reasonably sure that misleading prospectuses, concocted of half truths and baseless prophecies, will never play a prominent part in another boom and bust. We are fairly certain that the colorful pools and the melodramatic corners of another era are gone for good. We have confidence, too, that bucket shops and boiler shops have passed permanently from the American scene. Of course, there will always be customers who will lose money in securities. And there will always be firms which, after honestly appraising all the facts about the security and the market, will have guessed wrong. That is bound to happen.

I am not concerned with situations of that sort. What I am concerned with, and what I think all of us should be concerned with, is customers who suffer unnecessary losses because they have acted on recommendations which no person having any claim to be expert in the securities field ought to make. I am concerned with firms which adopt unsound business practices because they are unwilling to face the facts of life as they pertain to the securities business. I am concerned with the securities firm whose ignorance or cupidity blinds it to the fact that it must place the interest of its public customers before its own.

Before offering a security to his customer, it is enlightened self-interest for the professional to ask not "Can it be sold?" but rather "Should it be purchased?". Happily, there is abundant evidence that investment bankers and selling group members usually do exercise care and restraint in their offerings of new securities to their customers; and while it is disturbing to note that of late there is increasing criticism of some offerings of the securities of "war babies" it is worth recording that much of the criticism of such offerings has come from the ranks of the professional brokers and dealers themselves.

The reason why it is to the professional's interest to inquire whether a security should be purchased by his customer is obvious. It is not exaggeration to state that most securities firms which deal with public customers advise those customers on matters relating to the purchase and sale of securities. It is not doing violence to the truth to say that the reliance of public customers upon securities firms for investment advice is fostered and encouraged by those persons in the securities business with whom they deal. I think that it cannot be said too often that the professionals in the securities business are not in competition with their public customers. From the very nature of things such competition would be unfair, and for your spokesmen to proclaim publicly that such competition exists would be to announce the destruction of your business. This is bound to be true because there are few members of the public who would do business with you at an arm's length, and there are even fewer members of your profession who would be bold enough to invite business on such a basis. Your customers look to you for counsel and advice. They feel the need of the assistance of the professional in the complicated business of deciding what securities to buy and what to sell. When you offer them disinterested and impartial assistance in their investment problems, you find them eager and responsive. Were you to offer them less you would meet with suspicion and distrust. You cannot shut your eyes to the fact that, if the average individual investor became convinced that he could not look with confidence for impartial advice to those whose business it is to be expert in securities matters, then there would be no future to your business.

I emphasize these facts about your business because from them spring obligations which many firms choose to ignore. There exist today in some quarters practices which threaten to undermine the public's confidence in your business. All too often firms which solicit business as agents confirm trades as dealers because of their unwillingness to disclose the amount of compensation that they are obtaining from the trade. They justify their act by stating that they can make a greater profit by this method. Whether such reasoning is calculated to inspire public confidence

in your business I leave to you. This practice is particularly vicious when followed by stock exchange firms which have for years held themselves out to the public as brokers and are generally regarded as such by the persons with whom they transact business. They do most of their business as brokers, yet not infrequently it happens that when unlisted securities are involved some member firms take off their broker's coat and put on a dealer's coat without informing their customer of the reason for the change or its significance. Such conduct is frequently inconsistent with the best interests of the customer, and in such cases is highly detrimental to the welfare of the exchange itself.

Moreover, it is not uncommon to meet professionals who will not recommend listed securities to their customers because their markets are publicly quoted. I do not mean to imply that listed securities are of necessity the best securities, but I do wish to say that a firm which in considering the investment needs of its clients rules out the securities of some of our most prosperous and best situated companies simply because these securities are listed and traded publicly does not render that kind of disinterested service which customers are usually led to expect.

Among other obnoxious practices which seem to exist, I should include that of churning accounts, by which I mean the practice of trading a customer out of one security and switching him into another for the sole reason that this activity is profitable to the firm handling the account. I have no idea whether this practice is widespread, but it is disturbing to talk with so many professionals who volunteer as a mark of distinction the fact that their firm does not churn accounts. One is led to wonder if failure to churn is a special virtue to be found only in a selected few.

If I were asked to mention the one fact about the conduct of your business which seems to me to threaten most your claim to public confidence, I would mention the attitude of your business toward the disclosure of the market values of over-the-counter securities. Happily, it can be said that at almost every point of contact with public customers your business has made steady and substantial progress in its efforts to win and preserve the unique position of trust and confidence which it now occupies. It is a matter of great regret that such little progress has been made in providing facilities whereby members of the public can obtain accurate quotations for over-the-counter securities. The desire of the securities business to withhold public knowledge of accurate quotations in this field has given rise to controversies which have wracked your business for years. It underlies your debates concerning how much of a markup is fair; it is at the bottom of your troubles involving the manner in which over-the-counter securities should be quoted in the daily papers.

I venture to say that most of you know that I believe there should be full and complete disclosure of the market value of all securities. I know of no better objective standard by which to judge the present value of a security. I know of no good reason either in business or in morals why this objective standard should be so jealously kept from the public. I daresay that there is not a single person in this room who would buy or sell any security for his own account without first ascertaining its market value. I am sure there is no banker in this city who would lend money secured solely by an over-the-counter security

without first ascertaining its market value. Yet I venture to predict that there is nothing affecting the securities business in this city on which you find more agreement among those engaged in the business than on their opposition to market disclosure; and it requires no clairvoyance on my part to say that were the matter submitted to the public customers with whom you do business you would find them unanimously in favor of complete market disclosure. If this is true, do you not risk the public's confidence on which you so much depend by your insistence that the market value of an over-the-counter security is the trade secret of the professional? If the golden rule is a sound principle of business, is this not a perfect field for its application?

This problem of over-the-counter quotations will one day be solved. I have the greatest confidence that, when it is solved, it will be by making public the market value of these securities. It is the only solution which will create public confidence in the over-the-counter markets. I know that there are some bugs that will have to be corrected before a perfect system of disclosure can be devised. It is a matter of great regret that the securities business has not evidenced a desire to work out these bugs. I know that certain of your organizations have stated that they have made real efforts to devise a system of market disclosure and that it just can't be done. I say to you publicly what I said privately to a representative of one of these organizations not so long ago. This problem can easily be solved provided your business and its representatives accept the underlying principle. It can be solved if there is a will to do it. That will is lacking.

I said at the outset that one of the jobs of the securities business is to help to preserve public confidence in the issuers of securities. Let me develop that theme a little bit. It is a matter of pride to all of us, and it is due in large part to the efforts of persons engaged in your business, that corporations whose securities are publicly owned are becoming increasingly conscious of the obligations which they have to their security holders. This is reflected in more adequate reports to stockholders, and in the restraints exercised by most managements in such matters as those relating to the voting of special emoluments to themselves. Yet we are all disturbed at times by the action of the managements of some of our publicly-owned corporations who seek unearned compensation by voting themselves special retirement benefits or stock purchase options, or by otherwise attempting to enrich themselves at the expense of the corporation and its security holders. In many of these cases the facts are fully disclosed publicly, thanks to the requirements of the statutes administered by the SEC. This is particularly true when a stockholders' vote is required and proxies must be solicited. The success of most efforts of this character is due in part to the lethargy that immobilizes security holders. Yet each of these gouges leaves its scars and each of them tends to undermine the confidence of all of our citizenry in our corporate system. A commission such as ours cannot prevent these acts. All we can do is require that they be fully disclosed in cases coming within our jurisdiction. The only public voice that is usually raised in opposition to such matters comes from the financial press, to whose great credit it is that it has often exposed these legal but reckless efforts at self-enrichment. Would that there were voices in your business that added their influence to that of the financial press in such cases.

Most security firms believe that their responsibility to their customers does not end with the sale of a security. In recognition of this belief they undertake to advise their customers whenever new or changed circumstances require the liquidation of a given security. In certain situations they have sought to do more. A ready example comes to mind in the steps often taken by a security firm which originated or was actively interested in an issue to protect its security-holding customers in any reorganization of the issuer. As in many other fields, the public interest has required the enactment of legislation governing the conduct of such representatives, but the basic soundness of the proposition that security holders need the protection of expert representation in such cases has remained unchallenged. I daresay that few will be found who will not concede that on other occasions a disinterested advocacy of the investors' interests is required. Who shall be that advocate? Experience has shown that the individual investor is not usually equal to the task. The easy alternative is to suggest that some government agency do it.

Such an alternative should be the last resort and will never be needed if private groups will undertake to protect investors from unfair management. There is none better equipped than your own voluntary organizations, and there are no persons in the country having a greater natural interest in such a program than those whose business it is to act as the middleman between the issuer and the investor. The goal sought by all of us here, the goal of a strong system of regional finance, will be brought many steps nearer of achievement by the creation of a strong voice in each region to bespeak the interests of investors, not in general terms but in specific cases and as applied to specific proposals or derelictions. The strength of our political institutions is due in no small measure to the informed criticism of those most dedicated to their preservation. Has not the time arrived when all friends of capitalism must strengthen it for the challenges that may come, by a vigorous but loyal opposition to the excesses of capitalism whenever such excesses are threatened? In the financial field are there any persons better equipped for that task than you who are both students and salesmen of our corporate economy?

Yet, although we know that unfair treatment of their security holders by issuers is not uncommon, rarely do we hear the voices of your chosen leaders publicly raised against them in specific cases. Although many in your ranks can be found who will take a public position against sin, there is none who undertakes to expose it when it appears. This is not surprising since there are few individuals with the facilities or the time to examine into instances of corporate abuses. Many of your voluntary organizations are so equipped, however, and if the will exists to turn these agencies toward a more vigorous defense of the rights of investors, there is a little doubt that such action will be followed by an increase of public confidence in our financial and corporate institutions. I am not suggesting that you embark upon a witch hunt, but I am saying that you can serve your interests and our common interest by an impartial but critical examination of the treatment by some issuers of their security holders.

Let me be more specific. We have encountered a number of cases in which an issuer or members of the management of an issuer which has met

with unexpected and unpublicized prosperity have sought quietly to buy up some of the outstanding shares of the enterprise. Almost invariably the assistance of some one in your business is sought to accomplish this buying. Here is a shameful betrayal of your security holders who have borne the risks and disappointments of many years of unrewarded participation in the enterprise. To trade them out of their investments just as they are on the verge of a return not only defrauds them of their just expectations, but also is bound to engender in them a cynical and distrustful attitude toward you and securities generally.

Other instances of abuses come quickly to mind -- the solicitation of proxies by an unregistered company on the basis of inadequate disclosure; the failure of a company to employ independent accountants to audit its affairs at reasonable intervals; the failure of an issuer to furnish adequate financial information, even when readily available, to its security holders; or the postponement of a necessary reorganization by preserving the enterprise from technical financial default while those having voting control deplete its assets for their own benefit. These and other derelictions of management are often publicly known. The sense of futility which must come to the unfortunate security holders of such issues is not far removed from a sense of distrust in all securities. It is not far removed from a sense of distrust in the economic system that tolerates the callous disregard of obligations which, when created, were usually accompanied by pious protestations of good intentions. Should you not be on the watch for such situations, and should you not speak out against them publicly when they are found?

It would appear to be feasible for your business to select representatives to report publicly on the merits of some of these proposals to increase executive compensation, or on the derelictions of those corporations which do not deal fairly with their security holders. Such action would increase your stature and add to the public confidence not only in your business but also in our system of corporate enterprise. There exist many active organizations of persons engaged in the securities business -- organizations like your own; the Chicago Stock Exchange, our host today; and the other exchanges in the country; as well as the over-the-counter organizations of which many of you are members. Cannot some of them undertake the responsibility of voicing the financial conscience of the regions which they serve? Can we not have a "better business bureau" of corporate financial practices -- not alone in matters involving the sale of corporate securities to the public but also in matters pertaining to fair dealing with security holders?

It appears to me that this is a matter worthy of your earnest consideration. There is no more effective critic than a friendly one. There can be no greater service to the preservation of our corporate economy than the speedy exposure by its friends of those practices which threaten its claim to public support.

It is fitting to emphasize the significance of your work in relation to the individuals whom you serve. Remembering always the contribution which investment bankers make toward furnishing capital for our industrial machine, we must nevertheless not forget that the interests of the individuals whose savings are at stake cannot be subordinated to that

machine. We have just fought two bloody wars to maintain the freedom of the individual from domination by the State. As we turn to the ways of peace we must ever be mindful that our industry, like our government, is the servant of the individuals who form our nation. Business expediency cannot justify the marketing of unsound securities or unfair dealing with security holders, nor can the need for commissions or profits justify loose dealing by professionals with their public customers.

It is regarded as trite to dwell upon the fact that the individuals who own securities are frequently widows and orphans, or the aged, or persons under various disabilities. Although trite, it is worth remembering that the support of the helpless, the education of the young, and the care of the aged or the infirm frequently depend upon the probity and skill of a securities firm. It is this fact that gives your business a dignity which it could not possess were you to confine yourselves to dealing only with persons as versed as you are in the ways of finance. It is this fact which places upon you a unique responsibility toward the public.

You in the securities business have come a long way in the past ten years. For better or for worse, your business more and more is acquiring a professional status. This is so because investors generally are demanding professional guidance and because experience has taught them the value of your training and your skill. I believe that the future of your business demands that you accept this challenge of those whom you profess to serve. You may sell yourselves short by resisting this change in your business or by accepting it grudgingly and with reservations.