

SECURITIES AND EXCHANGE COMMISSION  
Washington

ADDRESS TO BE DELIVERED BY FERDINAND PECORA, MEMBER OF THE  
SECURITIES EXCHANGE COMMISSION AT THE CONVENTION OF THE  
FARMERS UNION OF IOWA AT DES MOINES, IOWA, ON THURSDAY,  
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At the outset I desire to express to the members of the Farmers Union my lively appreciation of the compliment implied in the invitation extended to me to address you today. I am also appreciative of the opportunity which you have afforded me through the facilities of the radio to address myself at the same time to the public at large, on the subject "The Regulation of the Issue and Sale of Securities."

When it was announced a few days ago that I was to address this Convention on that subject an acquaintance of mine suggested to me that there was no relevancy between the subject of my address and the interest of the farmers. I told him, however, that anything which affected the national economy was of immediate and vital concern to that section of our people who are engaged in the pursuits of agriculture as well as to every other class or group. It cannot be denied that our securities markets are to a certain extent reflective of business conditions. Indeed one might go further and assert that they furnish the tempo to which business and industry often adjust themselves.

The prices for which securities are sold on the great stock exchanges throughout the country are a guidance to our banks and all other credit agencies. They are accepted in our courts as evidence of value in appraising estates. The daily transactions, therefore, in our stock exchanges produce effects and repercussions in manifold ways throughout the land and indeed throughout the world, - for our securities are dealt in by persons in practically every land under the sun.

It is but stating the simple truth to say that our stock exchanges have developed to the point where they form today and indispensable part of our entire economic system. They perform functions of the greatest utility. Operations on these exchanges are so interwoven with our business interests generally that it is impossible to affect one without affecting the other.

For this reason alone it is highly important that whatever regulation of stock exchanges is undertaken should be of a character that will not impair or hinder the exchanges in the exercise of their useful functions.

This reasoning, however, constitutes an equally cogent argument for the regulation of the exchanges by governmental agencies in order that they may be strengthened and encouraged in the exercise of these useful functions by the elimination of improper or evil abuses and practices.

As you are well aware, an investigation into stock exchange practices was conducted during the past two years or so, by the United States Senate Committee on Banking and Currency. It brought to light the existence of

practices in our securities markets which cried aloud for their restraint or complete abolition. Through the medium of this investigation, it was conclusively established that many securities were foisted upon the public at excessive prices through misrepresentation and other fraudulent methods. It was also shown that the prices of securities on our stock exchanges were influenced, to the detriment of the public, by secret pool operations and other forms of manipulation.

It is not necessary at this time to conduct an elaborate inquisition for the purpose of determining just what were the causative factors responsible for the disaster that befell us in October 1929, and from the effects of which we have not yet recovered. Suffice it to say for the present that the evil practices and abuses which were found by the Senate Committee to have existed in the market places for our securities, made their formidable contribution to that disaster.

Partly as a result of facts adduced by that investigation, our Congress has enacted two measures which are aimed essentially at those practices and abuses. One of these is the so-called Securities Act of 1933, and the other is the Securities Exchange Act of 1934. These measures do not represent any haphazard tinkering by Congress with our economic machinery. I doubt if any single piece of Federal legislation within the past generation was given more mature and searching consideration prior to its enactment than was the Securities Exchange Act of 1934 and in that respect it was closely rivaled by the Securities Act of 1933.

And yet we still hear today the voices of criticism raised here and there against these statutes. It has been claimed that the Securities Act of 1933 has operated to dam the flow of private capital into industry, because of provisions which were asserted to be unreasonable and unworkable. Careful attention was given by Congress at its last session to these complaints. As a result certain amendments to the Securities Act of 1933 were adopted which were designed to relieve the original enactment of features which were believed to be unreasonable or too rigorous for practical application.

What are the objectives of the Securities Act of 1933? This question may be answered in a single sentence as follows: To see to it that those who issue securities and offer them for sale to the public, shall first tell the truth and the whole truth to the public with respect to those securities. I challenge anyone to impeach the soundness of this principle. If you are asked by another to invest your savings in the purchase of property of which you know little or nothing, would you consider that you were making an unreasonable demand or that you were placing an unreasonable obligation upon the other to tell you the truth and the whole truth with respect to the property?

This question answers itself. Hence, do you regard as unreasonable a statute whose mandate is that the person who seeks to sell to you stock in his business shall tell you the truth about it or suffer penalties for a departure from the truth? This question also answers itself. My friends, that sums up the philosophy of the Securities Act of 1933 and sets forth its objectives. It is not the purpose of the Securities and Exchange Commission, of which I have the honor and privilege of being a member, to administer the Securities Law in a spirit of vindictiveness because of past sins. There is not the slightest desire on our part to put a strait-jacket upon the legitimate financing of business enterprises. If experience should prove that the present requirements for the registration of securities are harsh, I feel safe in asserting that the Commission will exercise all the power it possesses to remedy the situation. There must not, however, be any deviation from the strict principle of the Securities Act that issuers of securities must tell the truth about their securities before they shall be permitted to offer them to the public. Had this law been in effect prior to 1929, I have no hesitancy in saying that the investing public would have been saved a loss of billions of dollars which it incurred through investment in securities that would not have found a ready market, had that public known the truth with regard to many issues of securities which it purchased principally in reliance upon the irresponsible use of printer's ink and upon false statements spoken in honeyed tones by artful and persuasive promoters.

Let me pose a similar question with regard to the Securities Exchange Act of 1934: What are the main objectives of this law? These are three fold: First-To prevent the excessive use of credit to finance speculation in securities. To achieve this purpose the Act clothes the Federal Reserve Board with power to place limitations upon the amount of credit which may be extended by brokers, dealers, bankers and others, to anyone, for the purpose of purchasing and carrying securities. Or, to put it in another way, the Federal Reserve Board is given authority to fix the minimum margin which a customer desiring to buy securities on credit must put up in order to effectuate the transaction. Through the wise exercise of this power, speculation will never again be permitted to reach the dizzy heights which it attained in the years prior to 1929. We will not again experience the enervating or vitiating effects upon our economic health which attended that speculative spree.

The second objective is to see to it that the market places in which securities are purchased and sold,- such as our stock exchanges and the so-called over-the-counter market,- are purged of the abuses which had crept into them.

In order to attain the second objective, the Securities Exchange Act of 1934 contains various provisions which outlaw manipulative devices, by the use of which it was possible in the past to influence the market price of securities without regard to their true or intrinsic value. In addition, Congress has vested the Securities and Exchange Commission with the power to make rules and regulations to govern trading in securities, whether such trading be carried on in the organized exchanges or in the unorganized over-the-counter market. In the formulation of these rules and regulations, I am satisfied that the Commission will be guided solely by the fundamental desire to serve the legitimate interests of the investor.

The third objective of the Securities Exchange Act of 1934 is to make available to the average investor honest and reliable information sufficiently complete to acquaint him with the current business conditions of the company whose securities he desires to buy or sell.

While the Securities Act of 1933 requires a corporation desiring to sell securities to the public to furnish information prior to the issuance thereof, the Securities Exchange Act of 1934 requires that any corporation whose securities are listed on an exchange shall continue to keep the information regarding its affairs reasonably current for the protection of the investor. In order to accomplish this purpose, the Act requires that all corporations issuing securities which are traded in upon the exchanges shall file both with the Commission and the Exchange quarterly reports designed to show the actual financial condition and position of such corporations. These reports will be made available to the public. They will unquestionably also be digested by private agencies which publish financial data for the information and guidance of the investing public. By this means any person who contemplates the question of whether he should buy, sell or hold a security listed upon any registered stock exchange, will have readily available to him information more adequate and reliable than any heretofore placed within his reach, from which he may the better evaluate the security and determine his action with respect thereto.

While this Act was pending in Congress, at its last session, opposition to it was advanced by certain interests upon the ground that these reporting requirements by listed corporations placed an unnecessary and unwarranted burden upon them. Let us, therefore, take a few moments to analyze this contention. When a corporation lists its securities upon a stock exchange, it does so usually for the purpose of enabling the public to trade freely in them in a liquid market. By implication at least, it invites the public to deal in its securities. These securities represent an interest in the corporation which issues them. Again I ask you, a simple question. Suppose you were approached by another person with a proposal to buy an interest in his business for a certain price, would you under those circumstances feel that you were entitled to truthful and adequate information concerning the condition of that business to enable you to determine whether you wanted to buy that interest in such business and if so, what would be a fair price to pay for it? Fairness and common sense both dictate an affirmative answer to this question. In substance that is the very thing which is provided for by the Securities Exchange Act.

Other objections were raised to the Securities Exchange Bill because of certain other provisions therein. I refer to those provisions which make it the duty of the officers, directors and all persons owning more than 10% of the stock of a corporation whose securities are listed upon a registered exchange, to report to the Commission at the end of each calendar month, any changes in their stock ownership which have occurred in the preceding month. These provisions were aimed at the evil of "in and out" trading in the stock of a corporation by those whose relationship to it gave them so called inside knowledge or information of its affairs. The investigation by the United States Senate Committee on Banking and Currency disclosed among other things that persons possessing the power attached to the management or control of a corporation, frequently used that power in ways which affected the market prices of its securities and by trading in those securities reaped unconscionable profits at the expense of the investing public which did not possess such inside knowledge and information. Through the provisions of the law requiring public reports of the trading by such persons, these practices will largely disappear. They will be further discouraged by other provisions in the Act which make them accountable to their corporations for any profits accruing to them from such trading operations conducted within six month periods. These features of the law will remove the incentive to the insiders thus to trade in the securities of their corporations to the disadvantage and detriment of the public, and will undoubtedly give to the general body of stockholders those benefits which flow inevitably from honest and unselfish corporate management.

It has been reported to us, more or less informally, that executives of corporations here and there might not care to have the securities of their corporations listed on stock exchanges after such exchanges become registered under the Securities Exchange Act. I cannot think of a single good reason for such an attitude. As I have already pointed out, the Securities Act of 1933 is bedrocked upon the principle that the issuer of securities must tell the truth about them before it will be permitted to offer and sell them to the public. Obviously an issuer which cannot afford to tell the truth to the investing public in order to sell its securities cannot be expected to work itself into a frenzy of enthusiasm over that law.

I have already referred to the essential principles sought to be established by the Securities Exchange Act of 1934. The officers of a corporation who refuse to have their securities registered with the Securities Exchange Commission are

assuming a very grave responsibility. In doing so they are withdrawing these securities from the liquid markets furnished by the stock exchanges. Moreover, such a refusal implies an unwillingness to disclose to the stockholders and the public at large, the truth concerning the current conditions of their corporation. Is it possible that these gentlemen are unwilling to become subject to those provisions of the law which would require them as officers and directors, or large stockholders to make monthly reports of their trading in the securities of their corporations?

I have, however, every faith and belief that when stockholders become aware of the true import and significance of this conduct of their officers and directors, they will, through the exercise of their power as stockholders, deal appropriately with those officers and directors who oppose the registration of their securities with the Commission. For it should be borne in mind that securities which are not so registered will be deprived of the liquidity of the stock exchange markets, and will have their collateral loan values detrimentally affected. Public trading in such securities could be carried on only in the over-the-counter market. Congress, however, has vested the Securities and Exchange Commission with a broad power of regulation over that market also. It is pertinent, therefore, to serve notice on those officers who would remove their corporations' securities from the exchange markets to the over-the-counter market in order to be relieved of the obligation to make periodic reports of condition, etc., may quickly learn that they have not succeeded in carrying out that purpose.

I can say for my colleagues on the Securities and Exchange Commission that they have undertaken the discharge of their duties with a keen sense of the seriousness of the responsibilities imposed upon them by these two Acts. They recognize the delicate and sensitive mechanism of our securities markets. They are aware of the evils that the Acts seek to curb. They are equally conscious of the great importance of not disrupting or disturbing the operation of these markets in their legitimate purposes. In the important task of formulating rules and regulations to govern trading in securities, we who compose the Commission have invited the advice and suggestions of exchange officials throughout the country. We recognize that their practical experience gained through many years of identification with our securities markets have given them a knowledge of great value to anyone charged with the duty of regulating these markets. We want to have the benefit of that knowledge and hence have sedulously sought it. I am happy to say that these exchange officials have responded to our call with every evident desire of according us their full cooperation.

The industries of our country are created in large part by the funds which go into them. Their expansion for the better accommodation of trade is made possible by the investment of the public's savings therein. The employment of workers in these industries depends upon the monies made available to them by such investments. The issuance and sale of securities have been found, by the reliable test of time, to be a convenient and satisfactory means for the financing of those business ventures which have made America the industrial, financial and commercial peer of the world.

These securities find a liquid market principally through our stock exchanges. These exchanges, therefore, fill an honorable and useful sphere in the economic life of our nation. They can and should be the main medium through which our people may make investments to conserve the savings which represent their toil and thrift.

Our purpose, therefore, is not to destroy our stock exchanges and the other market places for these securities, but rather to help them render that valuable service to the people for which they are designed.

To that end we shall act with dispatch and effectiveness toward the correction of wrongful practices wherever we find them.

I am convinced that one of the most important functions which the Commission may perform is that of educating the people in respect of securities through the data which the Act requires listed corporations to file with it. If investors can buy and sell securities in a fair and clean market where all may have equal access to the facts upon which sound judgment of value can be arrived at, then investment or even speculation in securities will become a matter less of mystery and luck and more of cold arithmetic. In such markets prices will more easily tend to follow earnings and profits and become less responsive to the tricks of manipulators and insiders.

In these circumstances a greater confidence in the securities markets should come to the investing public, and we may certainly hope for a different attitude of the investor himself toward the use of his money.

But the investor must still realize that no governmental agency has been created to guarantee either the present or future value of securities. In the Securities Act of 1933 the government has endeavored to impose upon those responsible for the issue and sale of securities to the public, the obligation to furnish fair and adequate information regarding the corporation. By the Securities Exchange Act of 1934 Congress has endeavored to eliminate from the exchanges those manipulative practices and devices which have prevented them from fulfilling their functions of furnishing a free and open market for securities. In the last analysis, however, the obligation still rests with the individual investor to judge for himself the true value of the security which is offered to him. Information will be available upon which he can arrive at an intelligent evaluation. Safeguards will be erected to protect him against those manipulative practices and devices which have resulted in wide fluctuations in the price of the securities. But he alone must pass upon the wisdom or unwisdom of his investment.

My friends, I have not attempted to discuss all of the many details of these two laws. I have sought merely to give you a general perspective of their essential principles and purposes as I view them. I feel certain that through the operation of these laws our securities markets in the future will rest upon a sounder foundation than they have in the past. However, it must be remembered that the real value of securities depends upon the condition of our economic body. For the past few years we have seen on all sides the distress created by the depression into which we were plunged in 1929. The sharp deflation of security values which then followed upon the inordinate inflation caused by the excesses of the three years prior to October, 1929, is responsible in no inconsiderable degree for the depth of the shadows of that depression.

As we emerge from these shadows, let me express to you my fervent and confident belief that by virtue of the operation of the two laws which have been the subject of this discussion, the prosperity which will surely shine upon us again will not become dimmed through the recurrence of such excesses.