

NEWS

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REMARKS OF

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SECURITIES AND EXCHANGE COMMISSION

before the

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"TEMPORIZING, THE MAJOR CAUSE OF UNCERTAINTY
IN THE FINANCIAL COMMUNITY"

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Mr. President, distinguished members of the Board of Directors of the New York Chamber of Commerce, Ladies and Gentlemen: I am honored to be your guest speaker this month, especially because prior to going to Washington I was a member of your organization. And this fact also leads me to the pleasant conclusion that whoever said a man is not without honor except in his own country didn't know what he was talking about.

I am also honored when I reflect on the long list of famous people who have addressed you previously. Furthermore, not even a stranger could appear here, in the Great Hall, without experiencing a strong sense of privilege at having been invited to do so. For he would be impressed with your history as soon as he saw the portraits of the founders of America's free enterprise system hanging along these walls. Men whose foresight, courage and hard work carried them to the pinnacles of achievement in finance, commerce and government. No one, however important in his own right, could stand in my place and not feel the presence of these champions of years gone by, whose faces, I must confess, seem to challenge the credentials of the speaker. I hope I am deserving of your confidence. And I hope my remarks will be of some help to you in coping with some of the challenges and uncertainties confronting you daily in your business activities.

To get things in proper perspective, we can all draw comfort from the fact that the history of the world is replete with examples of man's battles with uncertainty. Even the early settlers of lower Manhattan were no exception. They constructed a wall to protect themselves against possible attack by Indians. The uncertainties of when ships would arrive from Europe and whether crops would survive the weather were among the many other worries they shared. But they had learned in their long voyage to this country that in unity there was strength. So, they often subordinated their personal ambitions and desires for the common good. This was the only means of increasing their chances of surviving.

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By their actions they did not eliminate the uncertainties, but at least they took action to minimize possible unfavorable consequences. Had they sought to evade decisions so as to gain time, they might not even have survived. But they did not temporize; rather they met each challenge as it arose, they grew stronger in the process, and eventually settled the entire country. Today, largely because of the efforts of those early settlers, who surged ahead believing in the importance of the common good, our nation stands as the greatest in the history of civilization.

We should remind ourselves of the strengths and character of this nation as we view the era in which we live and are faced with uncertainties never dreamed of by those early settlers. Today our problems are generated more by our own actions. We see great pressure for change within society --changes which will insure greater opportunity and security for all Americans, changes which will help to preserve the natural environment of our country, and changes which will benefit our material welfare with no corresponding loss in spiritual values.

It is extremely significant that so many of those who are spearheading the movements for change are looking to you, the leaders of commerce and industry, for assistance. I don't have to tell you that it wasn't too long ago that it was the government and the labor unions who were expected to implement sociological change, certainly not the business community!

But times have changed, and now each of you must cope with the uncertainties brought on by this new order of things. Some of you have already taken action to meet the challenge. Others are convinced business has no responsibility for sociological change. And some of you are sitting on the fence, temporizing.

I want to urge you, as strongly as I can, not to delude yourselves that you are dealing with a passing phenomenon. You can not avoid getting into the act. You should not try to avoid getting into the act. You have a responsibility and you must face it. The alternative is greater government intervention. And none of us wants government to exercise any more regulation of commerce and industry than is absolutely essential to the welfare of the nation as a whole.

Now is the time for you to join the leadership of those groups advocating greater corporate awareness of the social impact of business decisions. This is your chance to demonstrate that the business community has the capacity to be responsive to the social needs of the citizens of this country while it continues to perform its primary functions of providing goods and services, employment opportunities and a return on capital invested at risk.

I have outlined, what may seem to some of you, an altruistic approach, dictated solely by fear of increased government regulation of your affairs. I assure you this is not the case. There are some very practical considerations involved.

The gigantic growth of our population, our development into a service economy, and increasing urbanization are factors whose impact on the social, economic and political scene should not be underestimated. It is obvious that individuals, corporations or government actions alone cannot solve such major problems as unemployment, housing, ecology and the deficit in our balance of payments. Simply stated, the interdependence of government and the people has grown to such an extent that neither one can act completely independently of the other.

This is equally true of the relationship between government and business. The adoption of federal corporate taxes, safety standards, environmental standards, wage and hour standards, packaging standards, to cite just a few areas of government regulation, has meant that business has relinquished many of its individual freedoms to accommodate the growing public interest. Again, the facts establish that American business is no more able singlehandedly to entirely determine its own destiny than are the American people or the Federal Government itself. All are inextricably in partnership for now and for ever.

It is with this premise in mind that I stand before you, not as a disinterested federal official, but as a partner of yours who is specifically interested in helping to shape the destiny of a major segment of our economic community--the securities industry.

How to improve our securities markets was the subject of the SEC's public hearings last fall. At these hearings investors and members of the financial community expressed themselves freely, gained a greater insight into the ramifications involved, and proposed solutions to various problems. The lengthy and detailed record of the hearings became the source of the Commission's recent policy statement on the future structure of the securities markets. In other words, the statement is a distillation of the views of those who testified, tailored to match the public interest and to assure that our capital markets remain the soundest in the world. The statement deals not only with concepts and philosophy, but delineates action programs to create a central securities market for listed securities. The next step is to implement these programs as quickly as possible.

To help accomplish this, the Commission has announced it is forming three advisory committees of non-Commission members to assist, develop and implement the announced policies. The committees will report to the Commission on:

1. the development of a comprehensive market disclosure system which will make available on a real-time basis sale price, volume and bid and ask prices on each listed security.
2. the structure, regulation and governance of a central market, including rules to regulate the activities of competing market makers.
3. the rules necessary to improve the handling of large blocks of securities and to minimize their potential for disrupting price continuity.

Each of these three areas is particularly important to the viability, efficiency, and fairness of the securities marketplace.

You may be gaining the impression that the Commission is so concerned with the structure and operational procedures of the securities marketplace, and the needs of exchanges and institutional investors, that the individual investor--the so-called "little guy" is being overlooked. Nothing could be farther from the truth.

The elimination of the individual investor from the marketplace, or even a reduction of his participation by any significant degree, would threaten the very foundations of our economic system. He must be kept in the marketplace at all costs. This means he must have equal opportunity with institutional investors and he should not be asked to pay more than a fair share of the total expense of execution.

I realize that from his vantage point the events of the last several years have not served to instill the individual investor with confidence that his rights are given just as much consideration by the Commission as those of institutional investors. Part of this is due to the fact that the role and activities of institutions receive more attention in the business press. And the various exchanges are represented by their own spokesmen. But the fact remains that by far the greater part of the Commission's efforts is devoted to protecting the individual investor. And the proof of this is the overhauling of the structure and operational procedures of the securities marketplace that is now in the offing.

The need for these changes became increasingly apparent when the exchanges could not keep up with the pace of transactions, when trading hours had to be curtailed as a result, and when one brokerage house after another went under. A number of interim remedial steps were taken to stabilize the situation, but it was not until last year that the broad outlines of a more lasting solution became apparent to me. At that time I presented a blueprint for restructuring the securities market which called for the merging of all existing exchanges into a single, corporate entity. At the same time I pointed out the immediate need to develop a fully automated securities market system. One in which disclosure of market information, execution, clearance, settlement and transfer of ownership functions would all be performed within a computer system. The need for such a system still exists because until it is in operation the costs of processing securities transactions cannot be substantially reduced; and, of more significance, investors will be unable to receive the economic benefits flowing from a system where security prices are determined by meaningful effective competition.

Equally important, in the absence of such a system, customers' securities in the hands of brokerage firms will continue to be exposed to the hazards of current processing methods. Although it is possible to increase customer protection by means of reserves and disclosure, maximum protection, as a practical matter, depends on completely automating the industry. This is because a major change in current securities segregation practices would introduce chaos in the back office of many firms and further increase the cost of processing securities. Furthermore, the impact of this on securities firms could well interfere with the Commission's ongoing efforts to improve the financial condition of those firms. This is why I proposed last year, and continue to propose, that a feasibility study be conducted to establish the general systems design and computer configuration of a fully automated securities execution, processing and disclosure system.

It is true that since I first proposed federal funding of such a project, many innovations have been made by the various Exchanges. I am concerned, however, that these separate efforts could well be counter-productive to the creation of a truly central securities market because they are merely a continuation of historical institutional competitive behavior; competition of the sort I deplored and which will no longer be tolerated by the public because it is wasteful.

Competition which provides securities markets with greater depth, liquidity and price continuity should be everyone's goal. Competition in the development of systems designed to maintain the status quo, however, can only be characterized as institutional warfare and has no place whatsoever in the scheme of a central securities market. What happens to efficiency and costs when six different exchanges perfect six beautifully designed, but incompatible, systems which add no new element of price competition? If they are unchallenged, the concept of a central securities market could be utterly destroyed for years to come. I for one don't want to pay that price and I don't believe the individual investor, if he understood what was at stake, would remain quiet about it either. I understand only too well how easy it is for an exchange to become convinced that it must preserve its own competitive position while it accommodates the public interest. But, accommodation is not enough; what

is required is allegiance to the goal of a central securities market. Until exchanges concretely demonstrate the capability to subordinate their vested interests to that goal, I will continue to urge that they must all be merged into one corporate entity which will not be blinded by parochial interests. The alternative, in the minds of some, is government ownership of the securities markets. And the consequences of the federal government of a capitalistic society taking over its capital markets could well provide history with its first example of a nation which committed suicide by devouring itself.

There is another compelling reason for automating our securities markets. In the past, I have urged that our securities markets remain open for business 24 hours a day in order to accommodate all time zones around the world. My proposal is not based on today's level of international business but is intended to achieve for the U. S. the status of being the primary trading market for all foreign as well as domestic securities.

If we are successful in becoming the primary securities market we will also establish ourselves as the port of entry for all capital seeking investment regardless of its country of origin. What a boon this could be to us and the other people of the world, especially for those citizens of underdeveloped countries, because all of the resourcefulness, imagination, talent and know-how of American businessmen would be at work. Our investment bankers would travel the globe as international citizens looking for investment opportunities on behalf of their world-wide clientele. They would also become a powerful force for peace if they succeed in reducing economic uncertainty by raising the standard of living of people less fortunate than others.

I firmly believe such activities, motivated by practical business considerations, would succeed. That motivation may not be in vogue everywhere, but it brought this country to the level of prosperity it enjoys. Let's not forget that simple fact while we search for a better life.

Before we can become the investment bankers for the entire world, however, we must take certain preparatory measures.

First, we must resolve, as we are doing, our problems with our international trade partners in order to maintain a steady stream of foreign capital into this country.

Second, our international companies must allow foreign businessmen to be represented on their boards of directors, as is done with international monetary agencies. This is particularly important when the foreign operation is a significant part of the company's operation or when it materially affects the local economy. This would help to prevent misunderstandings arising from national pride or simply from an inability to participate in decisions affecting one's own country.

Third, the American accounting profession, working with their counterparts abroad, must labor vigorously and swiftly to develop internationally-accepted accounting principles and methods of financial reporting so investors around the world have the necessary confidence and understanding of the companies underlying the securities being offered them.

Fourth, and insofar as some countries are concerned perhaps most important of all, the investment bankers must design new investment packages which will persuade the peoples of other nations that they will, in fact, participate in decisions affecting their natural resources and business activities. In short, we must find ways of ensuring that foreign countries, especially emerging nations, are given more than a fair opportunity to participate directly in the benefits arising from economic activities within their own country but financed by capital from without. At the same time, if the savings of people all over are to flow freely among nations, the importance of private property rights must be fully understood.

I would not want to conclude my remarks without touching upon a subject that I am sure you have been thinking about today, and are probably intending to ask me about. This is the amount of the brokerage commission being paid by the small investor and its possible effect upon his decision to invest in securities.

If such commission charges, which are currently set at the minimum required to keep brokerage houses in business, become a major factor in the investment decision, it may be desirable to allow the individual investor some offsetting income tax benefit as an incentive to put his savings to work in our capital markets. For example, it might be feasible to allow him to claim as a deduction against ordinary income the commission on security purchases in the year purchased instead of offsetting the commission against the sales price in the year sold. Of course, the loss of tax revenues of such a proposal would be an important factor in determining whether such a change in the tax laws should be adopted.

By now I am sure you can appreciate that you are not the only ones who face uncertainties, and that in fact, you may be slightly better off in this respect than I or my fellow Commissioners. But don't forget, I told you we intended to solve our problems with your assistance. Of course this means in return I have to repeat my offer of help to you. I admit I don't relish any more of a workload than I already have, but at the same time I promise you: I'll always be available to help you in any way I can.