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ADDRESS

of

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First of all, let me say that I am indebted to all of you for allowing me to take up your time today. I don't think I ever made a prepared speech before and I hope that by doing so now I won't leave you thinking that I've become a bureaucrat. I don't like to make speeches and if it weren't for the fact that my subject is something about which I really feel strongly, I wouldn't be here at all.

I think all of you know me. You know that while I may be serving as a Government official for a time, I came from the investment banking business and am going back to it.

I went down to Washington with my fingers crossed as to just what one in my position might be able to accomplish. All I knew about the SEC was that they made rules for me. They asked me to come down and help work out the technical phases of the new over-the-counter program. I knew that the job needed to be done but I was reluctant to attempt it because I wasn't sure how far I could get, or how well I could work with government officials. When I arrived at Washington I had my tongue in my cheek and a return ticket to New York. However, let me say here, that in working with Bill Douglas I find I'm working with a man whose aims and motives are just as sincere as my own.

I've been at the SEC for five weeks now and I must admit that it has been a matter of pleasant enlightenment to find myself working together with people I can understand and who understand me, people who talk my language and, what is more, who listen as much as they talk. I have seen many people in the business who have had something of a skeptical attitude on this cooperative Maloney Act program and I expected to find a certain amount of corresponding distrust on the part of the SEC. But after working with them every day for over a month, I have no hesitation at all in stating flatly that the SEC is approaching this problem with an open mind. Everyone that I've met in the government has full confidence in the industry's ability to do its own job of regulation. They are eager not only to see the industry do the jobs; they want to help in every way they can. They are sympathetic to the industry's problems in a way that neither you nor I would expect to find in Washington.

Of course, make no mistake about this: The SEC means to have the purposes of the law carried out. When I say they are sympathetic to the problems of the industry, I do not mean that they will compromise on the law. They intend to see the job well done and in the spirit of the Act.

Furthermore, all of us can make up our minds that securities regulation is a permanent institution in this country. I believe you will find it in the platform of every political party. Two years from now and five years from now, your business and my business will be regulated. Five years from now there will still be an SEC. The important point for us right now is that five years from today you may not have an SEC which is as alive to the needs of the over-the-counter securities business or as capable of dealing with them as the present Commission.

Perhaps some of you think that I've been taken into camp. Personally, I doubt it. If you think I have been misled, let me point out a few things which to me are tangible evidence of the attitude of the SEC toward the over-the-counter business. When I speak of the over-the-counter business, a term which has come into more prominence over the past few years, I mean the security business you and I know and have grown up in.

First of all, they decided to set up a system of *cooperative* regulation. In these days of government regulation, they could have asked Congress for full regulatory powers. The fact is that they appreciated the advantages of self-regulation. Secondly, they didn't have to come to the trade and ask for advice on the problem. They could just as easily have worked it out their own way and we would have had to accept it. But they invited Frank Bonner of Chicago and they invited me to come down - not merely to give suggestions - but to actually work out the details ourselves. You know how they have conferred with representatives of the industry. Last Thursday the Drafting Committee appointed by the I.B.C., who deserve your hearty support, came down to discuss revisions in its charter and by-laws and to some extent the scope of the new rules for a National Association. Usually such a matter would first be discussed with people on the staff. But on this occasion - the Commissioners themselves, Chairman Douglas, George Mathews, Judge Healy and Jerome Frank, sat with us practically all day, giving their whole time to our problem. You know, also, the enormous amount of time and attention Commissioner Mathews has given to this matter. He has been unsparing in his efforts, and, with members of the staff, has gone on speaking tours, patiently explaining the law and the way it works to groups of dealers from Portland, Maine, to New Orleans, and from Atlanta, to the Pacific Coast, and this over a period of five months.

Now, I am not saying these things simply to praise the SEC. They are here to do a businesslike job and not a political one. I point them out because I believe that they illustrate the type of opportunity which the industry has before it in the Maloney Act. For many years I have heard talk among bankers and dealers about raising the standards of the business. There were men in the business who had the idea long before the New Deal was in sight. We know now that the job should have been done ten or fifteen years ago instead of waiting for the government to get around to it. But now that the government has done it, and especially since the government is, in effect, sharing with the trade its powers of control and is allowing the trade to work out its own self-regulation, it seems to me that it is the responsibility of the trade to do a real job.

Moreover, it is to the interest of the trade to do a real job. I think it is well understood that the over-the-counter business today faces a serious long-range problem. As some of your thoughtful leaders have pointed out, one important effect of federal securities regulation has been to heighten the standing and prestige of the exchanges in contrast with the over-the-counter business. The exchanges, they say, are pressing harder and harder to widen the scope of trading both in their listed and unlisted departments. In this effort the exchanges expect to have public support if only for the reason that they have superior organization and public standing. If this is true, the advantage can be offset only by an equally vigorous organization of the over-the-counter business. This is important not only for its effect on the public mind, but for its effect on the government. And the choice must be made now. To stall along and merely go through the motions of conforming to the Maloney Act will result in a weak meaningless organization which will have little standing before the public, a poor position in Washington and will be pushed further and further into the background by the exchanges. If the job of regulation is not done adequately, it will ultimately be taken over by the government, and when that day comes, I doubt that you will want to be in the business any more than I will.

On the other hand, if a National Association or Associations are set up, well organized, vigorous, solidly supported and equipped to do a 100% job, the business will be ready to protect itself and to promote its point of view with the public as a whole as well as in Washington, no matter what changes may take place from time to time.

Some of you may wonder just what is involved in the terms, "self-regulation". I would like to lay before you some of the subjects which have come up for consideration. In submitting these I don't necessarily offer them as a program, but they definitely merit serious consideration by everyone in the business. Some of these are matters of immediate concern on which there will have to be fairly prompt action, either by the Association or the SEC. Others are long-term proposals which call for further study and examination.

1. Financial responsibility which includes such aspects as:
 - A. Keeping and preservation of books and records.
 - B. Filing of financial statements.
 - (1) Nature thereof.
 - (2) Treatment.
 - C. Inspection of books and records.
 - D. Establishment of some ratio between dealer's indebtedness and capital.
 - E. The question of margin transaction by brokers and dealers for own account.
 - F. Filing of information in respect to current underwriting commitments and net positions.
 - G. Reporting of loans partly or wholly unsecured.

2. Safeguarding the funds and securities of customers.
 - A. Hypothecation of securities carried for customers' accounts.
 - B. Commingling of customers' securities.
 - C. Commingling of customers' funds.
3. Safeguards against unreasonable profits and commissions.
4. The problem of manipulation and proper provisions for stabilization.
5. Quotations.
 - A. Adequacy and public dissemination.
 - B. Fictitious quotations.
 - C. Nominal quotations.
6. Regulation of market letters, brokers' circulars and other advertising.
7. Salesmen.

Qualification, training, supervision and compensation.
8. Discretionary accounts.
 - A. Management by broker.
 - B. Management by dealer.
9. Participation by association in enforcement of Commission rules.
10. Technique of trading, deliveries, settlements, etc.

I appreciate this may be considered a large order. But I repeat all of these are not things which are going to be imposed tomorrow or next week or next month. These are simply problems which you, as forward-looking members of the securities business, ought to be considering so that any conclusions reached will reflect your views. As I have said, some of these, as you can see, should be dealt with promptly and others need mature consideration before any action can be attempted. What the question boils down to is this: These are responsibilities which the over-the-counter business must ultimately assume if the new scheme of cooperative regulation is to be a success. They open up duties which the new associations should carry out. How many of these matters a new association can take care of from the start will depend on its organization and finances. How many it will be able to take care of within a year - two years - five years will depend on its aggressive and cooperative development.

Here is the problem as I see it. Let's decide now which of these problems the Association can handle - which of them the SEC must handle. The answer to it will involve practical considerations - budget, facilities, who can do it best. Let's make that division in a cooperative way in the light of practical business judgment.

Personally, I have looked at these points, not through the eyes of the SEC, but from the viewpoint of honest business practice and from my own business interest. The test that I have applied to them is : How will they affect me when I return to my business? I assure you I have no reservations. Yet the fact remains that they are broad questions of public policy and they must be looked at broadly. And when you look at the business against the trends that are in evidence in the securities business generally and in the country as a whole, you cannot escape the conclusion that the Maloney Act program of the SEC presents an opportunity which the over-the-counter trade cannot afford to miss. The law has been conceived sympathetically and offers cooperative self-regulation in place of government regulation. It is being administered by a government body which is sensitive to the needs of the business and anxious to work out its problems along sound lines. At the same time, the business faces increasing competition from exchange markets and growing prestige of the exchange side of the business. It faces a broad and continuing insistence on the part of the public and the government that the proper job of securities regulation shall be done.

The choice is clear. This opportunity ought not be allowed to slide. If it is passed by, the path of the business is downward and backward as more vigorous and progressive groups move ahead at your expense. On the other hand, if you take this opportunity, the future points to an over-the-counter business more virile, more active, and commanding more attention and respect from the public than ever before in our history.