

THE SEC AND THE SECURITIES MARKETS

Address of

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of the
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My Fellow Commissioners have asked that I bring you their greetings. We appreciate this opportunity to tell you something of our work. I do not propose, however, to take much of your time this evening. As was once said by a very wise man, "A single picture speaks a thousand words." The principal presentation tonight--the Circle Theatre television play, "Full Disclosure"--fully proves the point. It may serve to place the play in its proper context, however, if I take a few minutes to describe briefly the over-all responsibilities of the Commission.

As a result of extensive studies and investigations by committees of the Congress and by others into the conditions which contributed to the low state of the securities markets following the 1929 crash, six Federal statutes enacted between 1933 and 1940 were specifically designed to protect the American investor. The administration of those statutes, and important responsibilities under Chapter X of the National Bankruptcy Act, were vested in the Securities and Exchange Commission.

It will serve little purpose to list the excesses which contributed to the speculative character of the capital markets during the 1920's. It is enough to recall that the inadequacies of state corporation and securities laws, and the inability of local authorities to provide adequate safeguards requisite to the restoration of investor confidence and the re-establishment of sound capital markets so necessary to general economic recovery, led to the demand for corrective legislation. It also led to

a demand that investment banking be divorced from commercial banking. This was, of course, accomplished by The Banking Act of 1933, the administration of which was given to the Federal Reserve System.

The first two of these statutes--the Securities Act of 1933 and the Securities Exchange Act of 1934--are based on the principle that in new offerings of securities to the public, and with respect to securities traded on our national securities exchanges, the Government's function should be limited to preventing fraud, manipulative and other deceptive practices and to requiring that the investor be provided with facts needed for informed investment decisions. Thus, in non-exempt public offerings of securities investors must be furnished with a prospectus which reflects material information concerning the proposed offering, the business and financial status and the management of the issuer and other pertinent information required to be included in a registration statement filed with the Commission before the beginning of any such offering. The registration statement must become effective before actual sales may be concluded. Essentially the same information is required to be filed in connection with the registration of securities for trading on a stock exchange. Whether registration is effected for a new offering or for a new listing, the information so furnished must be kept up-to-date by annual and other reports. Officers, directors and certain substantial security holders of listed companies are required to report their ownership and trading in the equity securities of such companies.

The Commission is authorized to adopt a wide range of rules for the protection of investors and the public interest, and the statute makes it unlawful for any person by use of the mails, the facilities of commerce or of a national securities exchange or otherwise to solicit any proxy, consent, or authorization in respect of securities listed on a stock exchange in contravention of such rules. Pursuant to this authority the Commission has adopted proxy regulations by reason of which you receive each year a comprehensive proxy statement and an annual report from the management of the listed companies in which you may have a stock interest. These statutory requirements and implementing regulations have proved to be a most effective means of requiring disclosure by management of its stewardship.

I should mention that the Exchange Act also provides for the licensing and regulation of the principal securities exchanges and certain other voluntary organizations of persons engaged in the securities business. Both statutes contain a number of provisions designed to free the securities business and the capital markets of fraudulent practices, manipulation and other abuses. These sanctions and other provisions for civil liability for false statements, misrepresentations and deceptive practices generally complement and make effective the basic disclosure concept of investor protection.

The Public Utility Holding Company Act of 1935 is concerned with the regulation and control of public utility holding-company systems. It vests in the Commission wide authority and was designed, in part, to free

local utilities from the abuses resulting from uneconomic holding company systems in order to make regulation by state and other local authority more effective. In 1938, Chapter X of the National Bankruptcy Act was adopted. Under this chapter the Commission acts as adviser to the courts in connection with the reorganization of corporations having a substantial public interest. The Trust Indenture Act of 1939, really Title III of the Securities Act, is designed to assure a measure of independence in and responsibility on the part of trustees appointed to act for investors in connection with the public issuance of debt securities. The Investment Company Act and its companion statute, the Investment Advisers Act, were enacted in 1940 and assigned to the Commission its last major duties in the protection of investors. The latter statute is concerned with certain activities of persons who act or seek to act as investment advisers to members of the public. The Investment Company Act is directed to the special problems of the rapidly growing investment companies. It provides for additional disclosures of relevant facts regarding these companies, their policies and experience; introduces a measure of regulatory control; and it prohibits certain practices found to be against the interests of investors. It is interesting to note that, under this regulatory scheme, these companies have grown from gross assets of about \$2½ billion in 1940 to over \$20 billion and have come to represent an important element in our capital markets.

Very briefly described, these are the statutes for which the Commission has primary responsibility. They provide an over-all pattern of

provisions for the accomplishment of their major purpose--to inform investors fairly and effectively in reaching investment decisions and in their efforts to exercise intelligently their corporate suffrage. Of equal if not greater importance, these statutes provide a legislative base for the development of standards of fair conduct among all those who play important roles in the organization, the financing and the operation of corporations having a public investor interest.

Before we get on to the main business tonight I should mention that the Commission celebrated its 25th Anniversary last year. In commemoration of that event the Commission published a special Silver Anniversary Annual Report which contains a great deal of information regarding the history of the Commission and of the acts it administers as well as a discussion of current problems and the ways in which the Commission is meeting them. I commend that report to you for these reasons and for the wealth of statistical and other data which may be of interest to you in your daily work or in connection with your own investment decisions. For those of you who may be interested in more comprehensive discussions of the Commission's work by persons in and outside the Commission and useful descriptions of investment banking practices, I invite your attention to the October, 1959 issue of the law reviews published by the George Washington University and the University of Virginia. The Commission assisted in the development of these symposia.

I should also mention that the Commission prepared radio and television scripts containing a simple message to investors warning them against indiscriminate investment. These were broadcast throughout the nation by radio and television stations as a public service. In connection with these programs the Commission distributed widely a leaflet expanding upon the basic theme and urging investors to "Investigate Before Investing." We at the Commission hope that these efforts have served also to assist state and private agencies concerned with protecting the investing public against that unlawful element which seems to increase in size, intensity and daring in direct proportion to increased confidence and participation in the securities markets by the American public.

During the past year the Commission has also engaged in other programs intended (1) to remind businessmen of the existence, scope and the requirements of the securities laws and of the importance of early recognition and compliance with these statutes to avoid embarrassment and needless expense and delay and (2) to publicize as widely as possible the danger of indiscriminate purchases of securities particularly when such purchases are effected without adequate information and as a result of mail and telephone solicitation by persons not known to the investor.

On January 20, 1960 the Armstrong Circle Theatre presented a dramatization over the CBS television network depicting the operation of a "boiler room." Through the good offices of the sponsor and the network a kinescope of that production has been made available to you tonight.

The Commission's staff cooperated with the author and the producers by providing technical assistance and advice. This production was timely in the light of the public information programs which the Commission is developing in aid of its over-all enforcement measures. We hope that it has served to warn potential investors against the dangers involved in certain types of stock promotions. We were pleased with the television presentation and heartened by the response to it and the other programs initiated by the Commission which we have received in our principal office and in our regional and branch offices throughout the country. We will be pleased to have your comments and suggestions as to improvement of our service to the American investing public. Thank you.