REMARKS OF
JAMES J. NEEDHAM, COMMISSIONER
SECURITIES AND EXCHANGE COMMISSION

Before

THE NATIONAL INDUSTRIAL CONFERENCE BOARD

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Mr. Chairman, honored guests of the dais, ladies and gentlemen. I am delighted to be here today and to participate in this one-day conference on financial management in the decade ahead.

The program for this occasion is certainly broad enough to raise fundamental questions about many aspects of financial problems confronting management. Unfortunately, my schedule prevented me from attending the panel discussions which took place this morning. However, from the comments that I have heard, they were very profitable. I sincerely hope that your sessions this afternoon will be equally productive.

I bring to you the greetings of the Commission along with the reminder that my comments do not necessarily reflect the opinions of the Commission or of my fellow Commissioners. In other words, I speak only for myself.

In all fairness to your Chairman, I want to say that my remarks will encompass a broader area than originally planned. The subject of uniformity of practice in financial reporting is not a new one. Furthermore, it is not one about which there is little information. As a matter of fact, a great deal has been said and written on this subject. As far as I personally am concerned, uniformity of practice in financial reporting, while an elusive goal, is one toward which we should strive. I am not convinced, however, that across-the-board uniformity in financial reporting will ever be achieved, or that it is entirely desirable. To say the financial report of a steel company should resemble that of a broker-dealer would tend, in my judgment, to complicate further an already complicated subject.

The Accounting Principles Board is the acknowledged body responsible for reducing the number of alternative ways of reporting seemingly identical events. Their efforts appear to be torturous to many of you -- but, then, so is the subject matter they must consider. The problems confronting the Board are complex and of great significance. Furthermore, the many diverse interests of the business community further complicate their efforts. All of these factors tend to slow the rule making process. Hopefully, the pace will accelerate; but, I must inform you that, in my opinion, were the responsibility for rule making lodged elsewhere, for example, at the SEC, the results would not be any different. Private industry will serve its own best interests by supporting the Board's activities.

I might add that the Chairman of the SEC has announced support of the Board's current exposure draft on the subject of poolings. Our position was presented in testimony before a Senate Subcommittee examining activities of conglomerates. Some of you undoubtedly feel the proposed rule goes too far in that it "over reacts" to the abuses which occurred under the present rule governing poolings.

Perhaps; but then, that is the pattern of regulation -- Regulation tends to level that which it affects. Otherwise, exceptions would proliferate and debilitate the objectives of regulation.

I am going to assume at this point that most of you are managers or officers of publicly held companies. I think this approach is justified because if you are not now publicly held, you will at some point seriously consider that avenue of corporate financing.

The concern of management of publicly held companies extends to areas far beyond the immediate management of their individual organizations. One of these areas is the securities markets.

Today I would like to talk to you about some of the problems confronting the securities industry which I believe should be of real concern to you.

To begin with, it is well to remember that were it not for the financial market places, it is questionable whether this country ever could have achieved the level of industrial growth it has. We are the envy of the entire world in this respect. Companies of all sizes and seasoning have a place to go to obtain financing. All too often, this happy state of affairs is taken for granted. It is too easy for businessmen to lose sight of the fact that in a very real way, the well being of their companies is dependent on the state of health of the securities industry.

Also, some times the problems of other people strike us in such a way that we do not identify with them. I think the problems of the securities industry are problems for all American businessmen. Unless, of course, we want to be like the shipwrecked sailor sitting in the bow of a lifeboat watching his companions feverishly bail out water at the stern.

He made no attempt to assist them.

Finally, one turned to him and said: "Why aren't you bailing?"

He replied: "Because the leak is at the other end."

I am sure that responsible financial managers will recognize that it doesn't make any difference at which end of their boat there is a leak. They will be as concerned with the whole as they are with the parts.

The operational problems of the securities industry are not dissimilar to those many of you have in your own organizations. Basically, they involve more efficient ways of doing things, insuring adequate profit margins, and providing for the future well-being of the industry.

During the last year, I am happy to say, a number of notable events have occurred which indicate that the securities industry is moving forward towards resolving some of these issues. I am particularly heartened by the formation of an inter-industry group known as the Banking and Securities Industry Committee which will attempt to solve, on an over-all basis, problems in the processing of securities transactions confronting brokers and banks. Many people believe that the transfer of ownership process is one of the principal areas of inefficiency. Now the banks and the brokers are working together on this problem. Among the major remedies already proposed are:

- the adoption of CUSIP, which is a uniform numerical system for identifying all securities outstanding,
- a switch to machine-readable stock certificates, and
- the central storage of stock certificates.

While these concepts will contribute substantially towards easing the back office problems, I sincerely hope that before they are adopted more thought will be given to abolishing the stock certificate entirely.

I am a little concerned that halfway measures will serve only to further postpone the day of acceptable levels of efficiency in the securities industry.

Of course, there are many legal aspects to be considered before the stock certificate can be abolished. But if the ultimate objective is worthwhile, the legal considerations, while imposing, should not be an insurmountable obstacle to the development of an efficient securities processing system.

The leaders of the securities industry constantly talk about the diversity of business interests of their membership. Lybrand, Ross Bros. & Montgomery, and North American Rockwell, who conducted major studies of the operational systems of the securities markets, pointed to this diversity of interests as a compelling reason for a unified approach to systems development. The industry, for example, must look beyond the problems of one or two exchanges in one geographic area.

All exchanges, wherever located, should be made as efficient as possible. Specifically, their trading systems should be designed so as to interface with one another and provide maximum compatibility. Individual broker-dealers should also attempt to design interfacing systems to achieve the same objective.

The Exchange community must look down the road to the point where there will be a 24-hour day securities market. Security transactions will be conducted by communication systems which will ignore physical locations of the trader, the specialist and the exchange. The continued planning by stock exchanges along traditional competitive lines will not be tolerated by the investing public.

Another serious matter confronting the securities markets is the ever increasing institutionalization of the marketplace. As you may know, the Commission has under way an extensive study into the investment practices of institutions such as mutual funds, life insurance companies, pension funds, etc. This study, when completed, will give us the basic information we need to understand the real meaning of the term "institutionalization."

There is the question of whether institutions should have direct access to the central markets. In other words, should they be allowed to trade for their own accounts on the floors of the various exchanges? There are many arguments pro and con on this matter despite the fact that some exchanges already permit institutions to be members.

Many people address the question solely from the viewpoint of the marketplace. While this is an important issue which may test our ingenuity in devising new rules and regulations to maintain orderly trading, of equal or greater significance is the question of economic concentration, i.e., should we permit financial institutions to grow even larger and, by virtue of the size of their holdings, to unduly influence the market prices of securities and the liquidity of the market itself.

Ponder what the marketplace might be like if it were devoid of a great number of individual investors -- and, if the principal means of distributing securities were in the hands of a few large underwriting firms. In such a market would it be more -- or less -- difficult to sell securities to obtain needed financing? The answer may not be as simple as it appears.

Incidentally, I do not mean to imply that if institutions are universally permitted to become members of exchanges, disaster will automatically follow. It is not improbable that adequate regulatory schemes could be developed which would insure a fair and orderly market operating along traditional lines which would have the confidence of investors.

Turning to another area, the Commission recently approved the request of the securities industry to impose a surcharge on the usual commission on security transactions. In arriving at this decision, the Commission carefully weighed all of the relevant factors -- the foremost of which was the public interest.

Let me try to put our decision into the proper perspective to answer your questions and those submitted to us in the form of letters commenting on our action. The Commission was concerned with maintaining the viability of the securities industry and just as importantly, insuring that individual shareholders would continue to have access to the central markets. Judging from some of the letters we have received, many people are not aware that for some time we have questioned whether the industry is operating as efficiently as it can.

Unfortunately, we were somewhat in the position of a doctor confronted with a boy with a broken leg. His concern was not with how the leg was broken, but with what he could do to mend it. That was the position of the Commission.

We were not concerned at the time with making a study in depth to determine the efficiency of the securities industry. It was much more important to insure the continued functioning of the central securities markets, and to guarantee the small investor access to these markets.

As I have indicated, we are aware of what is going on in those markets and we are doing everything that we can to encourage the industry to become more efficient by adopting modern technology.

You may be wondering how all this relates to you. It does in this way. Each of the matters I have discussed affects investor confidence and -- the securities industry should not be the only industry concerned with investor confidence. You and other businessmen should be equally concerned.

It may be that you think of the securities industry only in terms of disclosure of financial information. That is not enough. The investor must also have confidence that when he wishes to buy or sell securities there is a fair and orderly marketplace to which he can go. He must also know that the marketplace is subject to regulation. He hopes that it is efficient. I am sure, too, that he understands that reasonable profits must be earned by those who perform the service of buying or selling the securities for his account. The investor knows there is nothing in this world which is free!

Investor confidence should be important to you for another reason. If it is impaired, a lesser amount of aggregate savings will be available to the securities markets. This in turn can deprive many companies of the financing needed to grow and to provide the products and services that an educated society is going to require in the future. If these funds are not available to American industry, then our economic growth will be slowed substantially, thus depriving our people of the opportunity not only to maintain their standard of living, but to improve it. Therefore, it is in your interest to see to it that the securities industry remains viable so that you have access to needed capital.

The Securities and Exchange Commission has often been characterized in terms that are unflattering. But, on balance, I believe that our reputation is best described by a recent writer who said:

> The Securities and Exchange Commission is known as a considerate agency of government, the guardian angel of widows and orphans and the polite policeman of those in the securities business. It is happily endowed with a competent staff which has traditionally displayed a benign understanding of the difficulties of compliance with all the niceties of federal securities regulation.

In all fairness, I must also tell you that he then went on for three pages to dissect our weaknesses.

No governmental agency can expect to be loved by all of the people, all of the time -- particularly an agency such as ours, which has such broad responsibilities. It is much more important that people, such as yourselves, understand the reason for our being and something of the problems we face.

I hope that my remarks today have contributed toward this end.