

Address of James C. Sargent, Regional Administrator of the New York Regional Office of the Securities & Exchange Commission, at the General Dinner-Meeting of the New York Security Dealers Association at the Downtown Athletic Club, May 3, 1956.

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It is a great pleasure for me to appear before the New York Security Dealers Association at their General Dinner-Meeting. This is the second opportunity since I assumed the office of the Regional Administrator of the New York Regional Office of the SEC to be with you at a dinner. The last time was on the occasion of your 30th Annual Dinner, which was held in the Grand Ballroom of the Biltmore Hotel, on Friday, March 9, 1956. I am also very honored to be asked to say a few words to you tonight.

When your organization was formed over thirty years ago, it was formed with full recognition of the need and benefits to be gained from self-regulation of the over-the-counter business. I note that your then expressed high principles included a desire to promote and uphold the fair and equitable principles of trade, to maintain the highest standards of business ethics and integrity over the association members, and thus to promote the interests of the investing public and its members. In my brief association with many of you who are here tonight, I have seen strong evidences of a continuation and an implimentation in your daily work and functions of these fully expressed and high-minded principles.

I would also like to say that these principles are comparable to the basic tenets which I am sure Congress had in mind when

it specifically required the Securities and Exchange Commission to insist upon full and fair disclosure of the pertinent business and financial information to the members of the investing public. Only by such disclosure can the confidence and faith in the capital markets be maintained.

Of course, you all know that as the head of the New York Regional Office of the Securities and Exchange Commission, I cannot speak for the Commission. You must also realize that as the Chief Federal Securities officer in the New York and New Jersey area, I am concerned with carrying out the high purposes expressed by Congress in the securities laws.

The tremendous current economic activities in the securities business have increased the task of the Commission in carrying out the Congressional mandate to protect the interests of public investors. For instance, the amount of corporate securities registered with the Commission for sale to the public during 1955, consisted of 938 registration statements, totalling nearly 12 billion dollars, and under Regulation A's \$300,000. exemption 1628 offerings for a total of 294 million dollars. Comparing these to the securities registered in the year 1935 of 2.8 billion, or to 1942 when 800 million dollars of securities were registered, or with respect to Regulation A's to the year 1946 when there were 1348 offerings for an aggregate offering price of 182 million dollars, you can get an idea of the tremendous financial activity of recent date and the relatively large increase in the volume

of work which must be done by this Commission. There has also been a concomitant increase in the trading in corporate securities where market value of all shares traded on the national securities exchanges amounted to 15.3 billion dollars in 1935, and to almost 40 billion dollars in 1955. This rather startling growth has inevitably increased the natural attractiveness of the securities business as a vocation.

You also know that under the Securities Exchange Act of 1934 the Commission has the responsibility for regulating the practices of the stock exchanges, of the over-the-counter markets and of brokers and dealers. This Act prohibits any broker or dealer from using the mails or other means or instrumentality of inter-state commerce to effect any transaction in or induce the purchase or sale of any security otherwise than on a national securities exchange, unless such broker or dealer is registered with the Commission. The high volume of corporate financing and the large increase in securities trading has attracted into the broker-dealer ranks many persons who are untrained in financial affairs, and who have had limited, if any, experience in handling the securities or funds of other persons. Many of these now registrants have limited capital, and are not imbued with the sense of professional calling, integrity, honesty and fair dealing within the securities business. The number of broker-dealers registered with the Commission during the past fiscal year has risen from 4111 as of December 31, 1953, to 4206 as of December 31, 1954, to 4446 as of December 31, 1955, and to 4521 as of March 31, 1956, or a 411 numerical increase in registration, which

is exactly 10% on the nose. In the Denver-Colorado region, there were 148 registered broker-dealers as of December 31, 1953, whereas as of December 31, 1955, there were 265, or an increase of almost 75%.

While I have no particular desire at this time to criticize any particular persons or activities, nevertheless, as the Chief Federal Securities officer in this New York area, I feel it is incumbent upon me on this occasion to indulge in a few cautionary words or admonitions. I am deeply concerned that many of the American people are becoming increasingly dissatisfied with certain aspects of the securities business and the capital markets in this country, by reason of certain abuses by a few brokers and dealers in securities transactions, which abuses are similar to those indulged in way back in the 20's. More specifically, I fear there are attempts being made by certain persons to get maximum public distribution of new securities without benefit of registration and without full and fair disclosure to the investing public of the economic facts and circumstances of particular companies. Such brokers or dealers who are indulging in these practices will unquestionably cause great damage to the capital markets, to the extent that such practices have as their ultimate effect financial injury to public investors. I hope that every member of this organization is greatly alarmed whenever he learns that securities have been sold in utter disregard of the Federal securities laws. Thus, where speculative securities are sold through high pressure sales campaigns to individuals who cannot shoulder such

speculative risks, and who have no knowledge of the speculative nature of the stocks purchased, the ultimate effect of such sales is to cause a withdrawing of the confidence and the faith of the little and the big investor from the capital market place. This fact causes me great concern, as I am sure it does to all of you. I might also point out that the Attorney General of the State of New York has recently recommended to the Congress that authority be given to the SEC to pass upon the merits of securities. Such a recommendation constitutes a rather drastic change from the Federal philosophy as expressed in the securities laws, which is to require the Commission vigorously to insist upon the principles of full and fair disclosure of the economic facts behind any particular corporation whose securities are for the first time being sold. In making reference to the recommendation of the New York State Attorney General I am not expressing an opinion as to whether I am in favor of such a drastic change, but I mention it only to emphasize the great concern of the New York State Attorney General for the protection of public investors.

And now I would like to state, in the New York Regional Office there are six sections. In addition to the Enforcement Section, we have a Regulation A Section, a Complaint and Inquiry Section, where informational requests from the public generally are answered, an Office of Investigation, a Market Surveillance Section, and a Reorganization Section. I want you

to know that the office is open from 9 to 5:30 five days a week, and I assure you that we who occupy that office will always be ready, willing and very happy to see any of you to discuss any of your problems and to attempt to answer to the best of our ability any questions which you may want to pose.

Again, I want to thank you all for a very fine occasion and an excellent dinner.