

AMPHLET

CAUTION -- RELEASE UPON DELIVERY

Speeches-SEC Staff  
SECURITIES AND  
EXCHANGE COMMISSION  
LIBRARY

ADDRESS

of

GANSON PURCELL

*Chairman, Securities and Exchange Commission*

at the

TWENTY-FIFTH ANNUAL CONVENTION OF THE  
NATIONAL ASSOCIATION OF SECURITIES COMMISSIONERS

Lowry Hotel  
St. Paul, Minnesota

12:30 P.M. C.W.T.  
September 3, 1942

52830

The opportunity to speak to the National Association of Securities Commissioners comes at a particularly fortunate time. The ordinary problems of regulation in the financial field became intensified in certain directions because of the advent of war, and have been especially heightened by our active participation in that war. Everyone has been directing his thinking in one way or another to the impact of the war not only on business, but on the regulation of that business as well, and has been bending his efforts to finding the way out of each new difficulty.

In May of this year, we of the Securities and Exchange Commission were invited to attend the meetings in Philadelphia of a large group of representatives of one business segment which was affected. They were giving their entire time to studying these problems. On that occasion I was privileged to address one of those meetings. In the course of my remarks, I stressed what seemed to me to be the advantages of a collective effort on the part of all persons concerned in order to bring to bear the united energies and resources of all of us in an attempt to find a solution of these problems. I issued, on behalf of our Commission, an invitation to all organizations in the financial community so sit down in joint session to explore the problems and to pursue remedies wherever they seemed possible. The response to that invitation was most heartening. It was an invitation of a general nature, not directed to any one person or organization in particular, but eager acceptance was promptly forthcoming from what I think may fairly be said to be all of the important groups in the investment industry.

Through the medium of the meetings we had in July and August, we have been able to appraise not only the size of the problems themselves but the attitudes of the people who are faced with them and their ability to deal with them. Also, we have seen a little more clearly the position which the regulatory authorities occupy; what their responsibilities are and what they can do. It is for that reason that I say it is most fortunate that we are able to be here at this time to discuss with you the nature of these problems and the approach to their solution that we see unfolding. It has become abundantly clear to us of the Securities and Exchange Commission that the state securities commissioners throughout the country occupy a most vital position in this whole effort. Furthermore, it is apparent that through heightening the coordination of activities that you and we have carried on in the past, we can improve our joint effectiveness and meet the exigencies of these crucial times.

I think reference to a single instance with which many of you are already familiar will serve to illustrate what I have in mind. It is a subject which occupies a prominent position on the program of this meeting. I refer to the proposal for the adoption of a basic form for financial reporting which will be used uniformly for reports by securities brokers and dealers to all government regulatory authorities and semi-public organizations requiring reports of financial conditions. For many years financial reporting by persons engaged in the securities business has been required by one organization or another in government and in business. It has, of course, been a growing tendency as the responsibilities of brokers and dealers, as people serving

the public, have become better realized and the efforts of public authority intensified. But in this growth there has been a perhaps natural absence of coordination. The stock exchanges -- depending upon the breadth of their members' business -- have required varying degrees of response to financial questionnaires. State legislatures and State commissions have increasingly insisted upon the filing of reports or statements of conditions. Each of the states and each of the exchanges, however, have devised their forms in the light of the examples at hand, but have naturally varied their requirements to suit the particular desires of each. Recently it was determined by our Commission to require a form of financial report from all brokers and dealers registered under the Securities Exchange Act. At about the same time, the National Association of Securities Dealers was giving consideration to the advisability of having such reports made by its members to its governing organization. We faced the now well-known problem of canvassing all segments of the industry and the individual state commissions, exchanging views in a long series of meetings conducted on the sporadic basis which has seemed unavoidable in the past.

At the first meeting which we had with the industry, however, the suggestion was made by their representatives that our joint governmental organizations be utilized to the end of simplifying the reporting procedure. Out of that suggestion grew the series of meetings of which you are aware between the members of your standing committee, representatives of exchanges, over-the-counter organizations, and of our Trading and Exchange Division, which were supplemented by the work of technicians attached to the staffs of each. In the short space of about six weeks' time was evolved a single form of financial questionnaire suited to the purposes of the business organizations

and of our Commission, as well as those of your organization to the extent that your very able committee was in a position to approve it. I should like to add here that I hope very much that it will find favor with your membership as a whole at tomorrow morning's meeting. I look forward with intense interest to attending that session. If this form is found satisfactory to your entire membership at this meeting, we will have accomplished together an objective in a manner which I think I may safely say has never before been done. The savings in time and expense that will accrue to the reporting firms from the use of a single form for reporting to all agencies to whom they are responsible will be extremely material.

This instance I think points the way to a solution of a large number of other problems, some of which we have both had under more or less hit-or-miss consideration during the past few years and others which we have not yet even touched. For example, our experience here very definitely gives rise to the hope that constructive steps can be taken looking to the simplification of corporate financial reporting. It seems to me that with the same measure of cooperation between the state commissions, business elements and the Securities and Exchange Commission that we have had on the problem of financial reporting by the securities industry, we could go far toward the development of simplified and uniform reports and filings required of corporations, to the end of achieving further economy of time and money. The Securities and Exchange Commission would welcome an indication of the willingness of your commissions and interested persons in industry to sit down with us and explore this possibility.

I should like to come back now to what I said earlier concerning the position which you of the State commissions occupy in the current scene. Of course, I am conscious that when I speak of the State commissions, I am speaking of the foundation stones of our own Federal authority. Like so many developments in our Federal legislation, it had its roots in state attack -- in this instance, on the problem of protecting investors. It then branched out into the broader field of inter-state Federal regulation, but only when the division of powers under our constitution, established as it was to safeguard against encroachment on the rights of the states, came to be employed as a protection to offenders. Thus it seems to me most appropriate that we should return again to the source of our great experiment in democracy. There is another reason, however, which also impels me to that conclusion, and it is interesting to note that that reason stems from our effort at this time to defend our democratic institutions. The war which we are prosecuting has called for a tremendous expenditure of our total resources, an expenditure which necessarily entails a compensating conservation of those resources. We must spend our dollars for the production of the machines of war and our man power to carry the war to the enemy, to his ultimate defeat. In money and in manpower there is a reduction in the available resources for carrying on non-military activities. Those non-military activities with which we are concerned, however, must not be neglected, for their impact is on the whole structure of our nation. In the financial field it is your duty and our duty to protect the soundness of our economic mechanism for if, through inattention, rottenness is allowed to creep into our financial economic system, the ultimate effect will be a serious impairment of our capacity to produce for war.

Our ability to continue the work of supervision in the financial field will be directly measured by the extent to which we utilize with efficiency the resources that we have at our command. The requirements of the military and naval establishments have inevitably drawn from the ranks of our younger able-bodied men and promise to continue to do so. In this respect, our experience is no different from that of the very business people with whom our work is concerned. We at the Securities and Exchange Commission were somewhat appalled at the number of our trained men who were leaving us to enter the Army and Navy, both through induction and voluntary service. When we studied the situation more carefully, however, we found that we still retained a very large number of our experienced officers and employees -- sufficient in fact, with an appropriate adjustment of our internal organization, to handle all our work with at least as great a degree of efficiency and dispatch as has been the case in the past. I know from talking with many of you that some of your offices have already had the same experience as we.

As I have said, this trend will, in all probability, continue and will require further measures to adjust our work to the requirements of winning the war on the battlefield. It has seemed to me that together we can begin to lay at this time a basis of increased coordinated activity which will form the framework of ready adjustment to the necessity as it may arise, thus giving one more assurance that the discharge of our important duties in the field of our national well-being will not be impaired. For instance, we are called upon almost daily by other agencies of the Federal Government to make

special examinations of complex financial situations arising out of the letting of contracts and other activities essential to the prosecution of the war. Our operations and experience have rendered us peculiarly equipped to do this type of work. These requests concern companies having offices and plants scattered throughout the 48 states. Our ten regional offices are so located and staffed as to enable us to obtain information with a greater degree of ease than if we were located in Philadelphia alone. It seems to me, however, that we could largely increase the efficiency of our work if we established a system of interchange which would enable us to draw on the facilities of your state organizations as well. Thus in these important matters, as in many others, we could enlarge our facilities by the very measure of the aggregate of the facilities of all of your offices. This suggestion is not based on pure surmise -- it stems in large measure from actual experience where we have in the past few months called on some of you to give us this type of assistance and have received a ready response. Nor would this benefit flow in one direction alone. I anticipate that much could be done by our organization which would be materially helpful to your commissions. I doubt if we have ever fully explored the possibilities.

But conservation of our man power alone is not the answer to the desired objective of maintaining the foundations of our economy on a sound basis. We must save in many other areas and we must do all we can within our power to help all the people of the country to save. Individual citizens can save many things; they can save rubber, scrap steel, kitchen fat and, above all, dollars. But these savings are of little avail unless they are put to the



most desirable use. Just as it would be silly and wasteful to keep piling up the kitchen fat in more and more brown crocks in the back pantry rather than delivering it as it accumulates to the butcher for forwarding to the processor of explosives, so is it dangerous to put the dollars we save in the mattress, rather than to loan them to the Government for financing the war through the purchase of Treasury bonds and savings stamps. Yet figures which our Commission publishes on a current quarterly basis with respect to the amount of individuals' savings and the uses to which they are put show that while savings have been increasing during recent months, the purchase of Government bonds has not been to any material extent. Generally speaking, an increase of savings is resulting from higher incomes and the inability to purchase consumer's goods such as automobiles, refrigerators and the like. However, that money appears in recent months to be going into checking accounts or into the mattress, both of which are unsatisfactory forms of saving at this time, though better than none at all. True, the purchase of Government bonds has been at a relatively high level during the past six or nine months but it has not shown an increase in any way commensurate with the increase in total savings. Encouragement of a greater contribution of this type in financing of the war by individuals can be rendered both directly and in indirect ways. Directly, of course, it can be done by you and by me only on a personal basis. Indirectly, however, you, probably more than we, can encourage investment in Government bonds through discouraging the possibility of expenditure of savings in speculation and in financing non-essential enterprises.

The practice of conservation and economy can be approached through still another avenue. Corporate management has often been inclined to forget its responsibility to its stockholders -- the owners of the enterprise on whose behalf the management operates. Vast improvements have, it is true, been brought about in various fields to one degree or another, but there is still much to be done. Furthermore, in time of war, management has a new responsibility to an even larger group of people -- to the whole public -- who, after all, are the Government. For in time of war, Government draws on the greater bulk of the productive capacity of our industries.

We see more and more today instances of management feathering its nest at the expense of its stockholders, as well as that of the Government. I do not need to detail for you any of the outstanding examples of this sort of thing which have been brought to light by Congressional investigating committees, and by other agencies of the Government. They all follow the familiar pattern of excessive compensation and allowances for expenses, bonus arrangements, sales commissions, and other pecuniary perquisites which management votes for itself, entirely without the knowledge of the stockholders. The tendency during the war has been to increase this sort of thing rather than to curtail it. The result of this kind of practice is to reduce the return to the stockholders and, at the same time, to fail to build up the financial reserve which will become increasingly important to the ability of corporations to ride out the economic storms ahead.

In some fields of corporate activity, there has been developed over a period of years a degree of Governmental supervision which minimizes the possibility of this sort of thing. In the public utility field, for instance, the development of public service and securities commissions in the various states with jurisdiction over the rates, accounting practices, and financing of public utility companies has reduced the possibility of dealing lightly with corporate property. These protective steps by the individual states have now been supplemented by the functions of the Federal Power Commission and the Securities and Exchange Commission in supervising the inter-state activities and other aspects of the public utility business which are beyond the control of the states. As a result of this progress, it can be safely said today that certainly in this field legerdemain of the type that I refer to cannot be engaged in with any degree of abandon. And while we, in the course of our day to day work in the utility holding company field, are still necessarily reminded of the sins of the past, I do not believe that scandal or corruption is the present-day practice.

In the general industrial field, however, Government has presently no mechanism for effectively exerting control over corporate mis-management, and over those practices which result in the defrauding of the Government and the people. It must be remembered that, to the extent that liberties are taken today with the conservation of corporate funds, the Government will ultimately pay the bill in the form of excessive costs under contracts for production or because of evasion of tax liability.

One method of exerting control over such practices - limited though it may be - is open to us within the framework of existing legal authority. We at the Commission believe that it is possible through exercise of our authority to enable stockholders themselves to control the actions of management. Patriotic stockholders, I am convinced will avail themselves of any opportunity which we may give them to curb these tendencies to the extent of their ability. I have reference to the proper use of the proxy machinery. Theoretically, the proxy device was set up to enable the far-flung ownership of a corporation to participate in the direction of its affairs. As we all know, it has been sadly prostituted. It has become a device for the perpetration and concealment of the very things that I am talking about. The staff of our Commission has been studying this situation for several years in the light of our somewhat limited powers under the Securities Exchange Act. Recently they have circulated to all listed corporations and to many other interested persons a draft of new rules governing the solicitation of proxies by listed companies which, if they meet the test of the practicalities of proxy solicitation, should go far toward giving stockholders accurate and complete information so as to enable them to curb the development of these practices.

Such rules cannot, of course, stop these excesses. However, they can, we believe, act as a deterrent. By disclosing the facts to stockholders, they would give them an opportunity which they do not now have to combat an abuse injurious not only to their own interests but to the interests of the nation as a whole. It must also be borne in mind that rules such as these would apply only to the limited number of corporations whose securities

are listed on the exchanges. They cannot touch the great number of companies whose shares are not listed and who do a substantial portion of our country's war production. However, limited as our field of operation may be, we intend to do all we can to prevent practices which work a fraud on the government and the people.

We as a nation at war are obliged to spend to the utmost in order to achieve success. But we must be mindful always that we must save in order to spend, and having spent, must make the greatest use of what is left to us. I have reviewed some of the ways in which we can help to save and indicated some of the holes that need to be plugged. The sum total of these problems cannot readily be divided and distributed for solution, some to State Securities Commissions, some to the Securities and Exchange Commission - they are all of ours in one degree or another -- in other words they belong to the nation. But the importance which men with your experience in government occupy with respect to them cannot be over-emphasized.