

CAPITAL FORMATION AND INVESTOR CONFIDENCE

Address of

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Washington, D. C.**

before the

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Mr. Chairman, etc., etc.

I am pleased and gratified to be with you today. I bring you the greetings of the SEC, Chairman Armstrong and the other Commissioners. To be back in Texas is always enjoyable to me. I attended college in Texas at Texas Western University, but that was many more years ago than I care to remember. Also, this country brings me close to my home, which is Arizona.

My pleasure at being here at your Twenty-Second Annual Convention was somewhat enhanced when I received the program from your Chairman, Taylor Almon, and noted that my appearance was to follow your distinguished President, Mr. Robert H. Craft, and was to take fifteen minutes. I figured that I could not get into much trouble in that length of time. I then thought, however, of the cardinal principle laid down by, I think, Daniel Webster who said that when he was going to speak for two or three hours he needed no preparation, but if his remarks were going to be limited to minutes the preparation became greater with the corresponding shortness of time.

I have been in Washington as a Commissioner for a little over one year. During that time I have tried to stay as close as possible to the Potomac, and except for two occasions I have succeeded. However, there are many advantages to be gained by a Federal official in attending sectional conventions such as this and saying a few words. Not the least of these advantages is that it compels one to sit down and reflect. To sit down, so to speak, and look at the forest. I am afraid sometimes that we are so engrossed with our day to day administration that so much time is consumed with our every day problems and decisions - big though they may be, particularly to the ones affected - that time does not often permit philosophic reflection on the job we are doing and the job we are trying to do.

So, I should like to reflect with you for a few minutes on one of the important things that concerns both of us - capital formation and investor confidence.

We will all agree, I think, that investor confidence is the cornerstone to capital formation. We at the Securities and Exchange Commission like to think that a paramount feature of our job - the way we administer the mandates of Congress laid down by security statutes - fosters that confidence. If that confidence is there, the free capital markets will sustain health and growth - and grow they must to meet the seemingly ever increasing demands of business expenditures.

It goes without saying that capital formation is tremendously important to our economic prosperity. There is nothing in the Federal securities laws designed to hinder or impair the raising of capital. As I said, I have been at the Commission for over a year, after having been a State Securities Administrator for some seven years, and I am convinced that these Federal statutes have helped - are helping - and do not harm or impede the capital formation process.

Try as you may to avoid it, in a subject such as this you always have to get into some statistics. The number of corporate security issues registered with the Commission under the Securities Act of 1933 for sale to the public during fiscal 1956 consisted of 981 registration statements covering the largest dollar amount of new issues of corporate securities - 13.1 billion - of any period in the Commission's history. This compares with 11 billion of issues registered during fiscal 1955 and 9.0 billion of new corporate securities for fiscal 1954.

In 1957 it is estimated that there will be 1,085 registration statements filed with the Commission, having a dollar value of 15 billion, and the estimate for 1958 is 1,190, having a dollar value of 17 billion. Compare this with 1951 when the dollar value of securities registered was 6.4 billion. So, from 1951 to estimated 1958 6.4 billion vs. 17.0 billion.

The gain in corporate financing in 1956 as compared with 1955 was due to increases in the amount of both publicly offered and privately placed securities. In 1956 a record 7.1 billion was offered publicly

as against 6.8 billion in the preceding year. As to business capital expenditures, final figures for 1956 show total expenditures of 35.1 billion, with every major industry participating in a 22% rise from 1955. By way of justification for statistics, this increase, one of the largest ever recorded, was within 1% of the figure projected by business in the survey a year ago. Business in turn plans to spend a record 37.5 billion on new plant and equipment in 1957. This amount is over 2 billion, or 6-1/2%, above the all time high established in 1956.

Business capital expenditures, accelerating as they are, need ever increasing new investment money since retained earnings alone cannot carry the entire burden of plant and market expansion. Through proper and vigorous administration of the securities laws the Commission, I believe, is playing a vital part in the necessary sustenance of investor confidence which is a necessary prerequisite to the acquisition of that new capital by business.

The full disclosure principle, the "truth in securities" idea, has become a part of the securities flotation mechanism, and it is this principle which has assisted in gaining, and continues to aid in sustaining, that investor confidence. In this connection the Commission is continuously endeavoring to eliminate as far as possible the fringe operators and the illegal operators from the market place.

Succinctly, what I am saying is that the securities laws have worked well to the benefit of business, of the investor, and therefore to our economy in general.

Of course, it has taken more than the statutes. It has taken a vigorous industry that has cooperated under the securities laws and with their administration. These things, the law, the vigorous industry, the cooperation of that industry with those that administer the laws, the investor within the protection of these laws - they have all become woven into an intricate structure that has provided and will continue to provide, I am certain, a means of adequate capital formation for business and economic needs. Admittedly regulation has its irksome features, as you well know, but these must be carefully weighed against the benefits provided. In balance, as I say, the regulation statutes have proven beneficial.

Some see shadows on the horizon when they point out and emphasize that in 1956 debt issues, particularly those of manufacturing companies, accounted for virtually all the increase in the aggregate of new security offerings. They point with varying amounts of alarm to the fact that 75% of 1956 financing was by debt issues and that 25% was by equity issues. The reasons for this ratio have permitted the economists and the analysts a wide range of diversity of opinion, and I am not going to add to or comment upon that here today. I should like to note, however, before concluding that the amount of financing for the first quarter of 1957 may well reach the 3-1/2 billion mark and that the equity ratio is on an up trend. The pendulum seems to be moving back towards greater equity financing if these first quarter figures are a criteria for prediction.

Cause and effect may be argued at length, but we know, above all, that a free, confident capital market is our common goal; that keeping it free and confident is our common job and desire.

The objective may be achieved and maintained by a continuing effort by both the regulators and the regulated.

I thank you.