

REMARKS OF  
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In keeping with the policy of the Securities and Exchange Commission, I am required to read the following statement:

The Securities and Exchange Commission, as a matter of policy, disclaims responsibility for any speeches by any of its Commissioners. The views expressed herein are mine and do not necessarily reflect the views of the Commission . . .

Since I have just completed my first year in office, I thought you might be interested in some of the things that happened to me on the way to Washington.

At the time of my appointment, newspaper accounts indicated that a controversy might result if a C.P.A. were named to fill the vacancy on the Securities and Exchange Commission. Most of my friends felt this was hardly news, for I had always been associated with controversy. Incidentally, the source of this rumor was later identified as a member of the bar--my own brother.

On the other hand, I would have been less than prudent if I had not taken cognizance of the implications and significance of those headlines. Accordingly, in anticipation of my confirmation hearing by the Senate, I prepared diligently for many of the searching questions I anticipated they would ask me. I read the rules of Conduct for Commissioners; I read pending legislation; I read the testimony of other Commissioners at the time they appeared before the Senate for confirmation; and, I rapidly reviewed the various acts administered by the Commission.

Prepared as best I could, but with a foreboding feeling and the fear of public controversy, I took my children to Washington on the day of the hearing so they could witness our government in action. Three of my former partners were kind enough to be present that day as well. And well they were! Otherwise the hearing room would have been empty. Apparently my appointment not only failed to stir controversy, but also failed to evoke any interest.

The questions presented to me at the hearing were concerned principally with any possible conflict of interest which might arise in connection with my new position. I recall one Senator, after looking at my financial statement, said--for the whole world to know--I have reviewed Mr. Needham's personal financial statement and I cannot visualize how a conflict of interest could conceivably arise. A sad commentary on the pay scale of accounting firms.

Shortly thereafter I was sworn in by our Chairman who promised I would have time to play golf. However, since I have been in Washington there has been little time for this which, I believe, gives me grounds for talking to the Chairman about his understanding of the meaning of the term full and fair disclosure.

Since arriving at the Commission I have been asked two questions on many occasions. The first: whether my accounting background has assisted me in performing my job as an SEC Commissioner. My answer is that a Certified Public Accountant can make a contribution at the Commission from the time he assumes office because he has had the necessary professional training and discipline to handle the types of financial disclosure problems which confront the Commission daily.

The second question is predicated on the fact much of the work of the Commission involves applications of complicated laws and regulations. People, quite rightly, wonder whether this presents severe problems for a non-lawyer. The answer, fortunately, is no. I am sure that if this were not so, no one not a lawyer would ever be appointed to the Commission.

It should also be remembered that an extremely capable staff supports the work of the Commissioners; and, each commissioner, including myself, has a law assistant. Furthermore, the General Counsel of the Commission stands ready to assist all commissioners, regardless of their backgrounds, with specific analysis of statutory provisions and usually does when difficult legal questions arise.

The role of the SEC as a regulatory agency has been the subject of much comment--not all of it favorable. It may help to recall that the peculiar relationship of the regulator and the self-regulator, created by Congressional design, was commented upon in the Special Study in 1963. The Study had this to say about the Commission's role in the regulatory scheme:

Regulation in the field of securities should continue to be based on the principle of giving maximum scope to self-regulation, wherever and to the extent that a regulatory need can be satisfactorily met through self-regulation.

However, the Study also pointed out that it was a responsibility of the Commission "to assure that there is no gap between the total regulatory need and the quantity and quality of self-regulation provided by the recognized agencies." Furthermore, the Study said that it "is necessary also to assure that action taken in the name of self-regulation fairly serves a valid public purpose and is not for a purpose inimical to antitrust or other public policies." It added that, "Regulation in the area of securities should, in short, be a cooperative effort, with the Government fostering maximum self-regulatory responsibility, overseeing its exercise and standing ready to regulate directly where and as circumstances may require."

Thus it can be said that the responsibility of operating the securities market places is in the private sector by Congressional design. It is a heavy responsibility and one which cannot be taken lightly. The public interest is paramount and cannot be compromised. To do so would be to inflict violence on the will of Congress and, in the long run, would be contrary to the best interests of the securities industry. So it is a self-serving interest, as well as the public interest, that should motivate self-regulators to see to it that the market places are regulated properly and maintained in a viable condition.

It is worth noting, at this point, that during times of financial difficulty, the self-regulatory apparatus of the securities industry has appeared to function at something less than full efficiency. It is not easy to upgrade business standards and practices when a consensus is necessary, but that is what self-regulation requires--and more importantly, what the public interest demands. Timidness, compassion, or "flexibility" are not substitutes for objectivity in the interpretation and enforcement of one's own rules. I wonder which of those firms that have gone under because of financial difficulties would still be in business today if there had been more vigorous and foresighted regulation of their financial and operational capacity by those charged, in the first instance, with regulatory responsibility. The Securities Act of 1934 lodged such responsibility in national exchanges; therefore, it is they and their members who must account for their stewardship of the public interest.

This emphasizes the fact it is the responsibility of the securities industry to first attempt to solve its own problems. Ours is the responsibility to assist you, and ultimately, to approve or disapprove of certain of your decisions.

A second point to remember: by solving your own problems you at the same time strengthen the discipline of your industry. Self-reliance cannot be strengthened by dependency any more than the muscles of the body can be strengthened without exercise. This is another reason why I believe that in the final analysis it is in your best interest that the ultimate solutions to your problems come from you. This is the American way, and it is the underlying reason for this country's spectacular industrial growth. This country did not become a world leader because our people were unable to do for themselves those things which had to be done.

I am also happy to note that recently you have been re-examining practices and methods of doing business so as to reduce costs and to render better service to investors. I applaud those efforts because there currently exists a risk that unless costs are brought under control and services are improved your industry will force the small investor to divert his savings to other capital markets. If this happens,

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.

One area of potential growth for you involves foreign transactions in American securities. Currently the U.S. markets enjoy a virtual monopoly of this trade. In many instances European customers and their traders are willing to accumulate their orders for up to six hours in order to participate in our securities markets. But how long will they be willing to undergo such inconveniences? While continental securities markets may not be sufficiently strong at this time to offer any real competition, this may not continue to be the case. To mention just two examples out of a host of possible ones--the Japanese have already been able to penetrate heavily into the American electronics market and, in addition, together with the Germans, they have forced a significant change in the direction of the American automobile industry. The time may not be too distant when other nations may develop more competitive securities markets. Will it then be too late for the U.S. securities industry to take steps to meet this competition?

Fortunately, it would not take much to protect our interests in the immediate future. Next year, a European broker could have in his office a desk unit which would receive from across the Atlantic the quotations of a substantial portion of the securities being actively traded in our markets. This automated communication system would bring that broker as close to our markets as any broker in the U.S. But this would not solve the problem of attracting orders which the European broker must accumulate until the early evening hours of his business day if he is to execute them in our markets. Perhaps you could extend our trading hours to provide Europeans with at least a partial if not full real time market for the securities being traded in our markets and to offer them the same trading advantages that American traders and brokers now enjoy?

In referring only to Europe, I do not mean to preclude similar accommodations being provided for other continents, which may find our securities markets presently attractive, but who in the future may develop competitive markets of their own. Isn't now the time to plan for changes in trading patterns that will maintain--if not increase--the preeminence which the U.S. securities markets now enjoy?

If we expect foreign traders to continue to utilize our markets, we must endeavor to treat them as valued customers and we must offer them the most efficient markets. Competition should bring more foreign investors into our markets through more efficient and improved services just as it should attract more of our own investors through similar improvements here at home.

I do not mean to imply that increased competition abroad and at home will guarantee you a golden future or do away with the need for government participation. Jointly, we still have the responsibility to insure that markets are operated free from fraud and collusion and in the public interest. In this case it is the government's obligation to regulate, but such regulation is necessary only to set the framework or boundaries for competition and not to replace it.

In my opinion, the President's Economic Message makes it clear that the promotion of competition and not of government regulation should be a major goal of the Federal Government.

I do not think I can more simply or clearly articulate this point than by quoting from the "Report of the Council of Economic Advisers":

"In a competitive market, if a private company uses productive resources inefficiently, market pressures force it to relinquish them. This is one of the reasons why we should rely as much as possible on the discipline of the market place to protect the public interest."

And with particular reference to the financial markets, the report further emphasized:

"While the ultimate objectives of Federal involvement in the financial sector are clear, the problems and costs do not always receive sufficient attention. \* \* \* Regulations devised for an earlier economic environment can stifle innovations and new developments in today's market. \* \* \*

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"Sometimes regulations created to protect the public against malpractices are extended and used to restrict new entry into a market. Regulations also often prescribe or support minimum or maximum prices. \* \* \* The problem is to make certain that 'fairness' in setting rates does not put an umbrella over inefficiency, and that 'soundness' in financial institutions does not become a pretext for impeding competition and innovation."

It is essential that you not overlook these basic truths in any deliberations concerning the future course of your industry.

As far as today is concerned, these are trying times for you, and no one is more aware of the number and magnitude of your problems than I. For whatever consolation it may bring you, you are not alone. Every industry which serves the public is being subjected to scrutiny--and rightfully so--because the needs of the public or, if you will, the people of the United States, are different today than when a group of men sat under the Buttonwood tree in 1792.

One last, personal thought. It is relevant to keep in mind that we are only working for our daily bread. Our ultimate reward is not here--regardless of how pleasant this existence may be. We are merely players on the stage of history. Therefore, have faith in your future and in your leadership. Let us dedicate ourselves toward insuring that the securities industry and the securities markets are turned over to the next generation in better condition than when they were given to us.