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THE CHICAGO STOCK BROKERS ASSOCIATION

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William L. Cary
Chairman
Securities and Exchange Commission

April 16, 1962

I should like to address myself this afternoon primarily to the Commission's study of the securities markets. Congress directed that this study be a broad one and the Commission is intending to execute this directive literally. The study is approximately six months old. Data is being collected, field inquiries conducted, and interviews held with respect to a wide range of subjects. But we are not yet prepared to present any particular findings. This would be premature and must await final submission of staff reports. I, therefore, believe it more appropriate to direct my attention to the Commission's general approach to the study and what it believes its responsibilities to be.

What are the background and reasons for a study at this time? In the first place, there has been no intensive and broad analysis of the securities markets by the Securities and Exchange Commission in over twenty-five years. During this period the Commission has been primarily occupied with immediate problems and has not had the opportunity to review in depth changes occurring in the markets. Important changes, which need evaluation, include the following: (1) the expanding size of the markets, as demonstrated by increases in the number of shareholders, in the number of issuers, in the volume of trading in exchange and over-the-counter markets, and in institutional purchases and sales (mutual funds,

pension trusts); (2) changes in methods of distributing and marketing securities, including the spread of branch offices, the employment of part-time salesmen, and the use of novel methods to distribute certain securities, such as door-to-door selling or restrictive arrangements utilized in so-called "hot issues."

Secondly, there appeared to be a breakdown of controls in certain areas of the securities markets. As already indicated, over the last five years, the Commission has observed the development of unhealthy practices in the distribution of securities. Moreover, a serious failure of self-regulation was illustrated by the staff report on the American Stock Exchange. Because of the expansion and growth of the markets, this breakdown has a broader impact and assumes a great importance.

Finally, I consider that the study will provide a vehicle for achieving one of the primary functions of the Securities and Exchange Commission -- the raising of standards in the securities business. This endeavor, happily, we share with the finest elements in the industry.

I have said before, and it bears repeating, that the Commission is not anti-Wall Street or anti-LaSalle Street. We are not bound by any doctrinaire viewpoint; our only commitment is to a careful, workmanlike fulfillment of our responsibilities. Our job in this study is to determine the facts and

practices in the securities business in a detail and scope not heretofore available to us so that we may amend or promulgate rules, or recommend legislation, consistent with our general goal to elevate standards.

The industry itself will undoubtedly enjoy benefits from the study to the extent that it reviews its own practices and procedures. I believe that this point has already proven itself. Since the commencement of the study, we have noted various rule changes by self-regulatory bodies, expansion of training programs by brokers, and the establishment of new internal control procedures by firms throughout the industry.

We are trying to conduct the study in a responsible way and in a manner that will maintain public confidence in the securities markets. I recognize that a study of this kind imposes burdens on the industry itself, in answering questionnaires and otherwise. We have been doing everything possible to hold this burden to a minimum, by sending questionnaires to limited samples of the industry and by avoiding multiple questionnaires for any one firm wherever possible. But I think you will agree the study must be based primarily on up-to-date facts and viewpoints gathered from the industry itself, not merely on arm-chair theorizing. Moreover, I want to emphasize that the study is a study, not an extended disciplinary proceeding. The selection of a particular broker should not be taken as any reflection on his

activities, for particular persons are selected to give as broad a base to the sampling taken as possible.

Furthermore, I recognize that the duration of such a study -- in our case a year -- may create uncertainty in people's minds as to just exactly what is going on and what will be recommended. But I would think that everyone is aware that a task of this magnitude cannot be completed responsibly and thoroughly in a shorter time. We must proceed with great caution and do very substantial investigative and analytical work in order that any recommendations that we make will be soundly based. To the extent possible, interim reports will be published after the data has been collected, analysis completed, and recommendations made. However, this desire is limited by the fact that, since so many problems in the securities business are interrelated, it may not be feasible to report on particular problems in isolation.

Finally, I may say that our conception of our task excludes any notion of investigation by headline hunting. We have been trying to keep the public informed of the study's progress and will continue to do so, but we will not substitute sensation for analysis. As the Commission has announced, there will be public hearings. Particular subjects for hearings

are selected because there should be an opportunity for public expression of conflicting views or because the general public would be particularly concerned and ought to be informed and educated.

On the other hand, I have seen various allegedly official reports -- actually plain rumors -- in the newspapers and elsewhere that the Commission is planning to study this or that or will recommend this or that particular action. It is to be expected, and appropriate, that in an inquiry of this sort there will be a continuing public interest. But do not be alarmed by idle rumor. It is often said that Washington is the only place where sound travels faster than light. I would stress that the Commission has not decided what it will recommend. When these decisions are made, the recommendations will be made in a formal, responsible way, not through unofficial sources. Incidentally, if anyone can find out who some of these "official sources" are, please advise the Commission. Perhaps you will agree that they should even be muzzled.

I should now like to allude briefly to one most important aspect of the study. If any fact has impressed me during my experience at the Commission it is that qualifications for entry into the securities business,

the financial responsibility of broker-dealers, and the processes of training and supervising salesmen require thorough examination. There is certainly a need for greater professionalism on all levels. My barber was complaining the other day that it is harder to become a barber than to get into the securities business. Moreover, one wag has well said that a murderer can be kept from becoming a broker-dealer only if the person he shot worked for the S.E.C.

Those diverse comments are reflections of a most serious problem. All professional groups operate on the assumption that professionalism begins at the port of entry. Moreover, training and responsible supervision are necessary to maintain standards. We must, accordingly, determine the extent to which, and the manner in which, present requirements of the securities laws implement the goals of professionalism. The Market Study is engaged in an intensive analysis of this problem. Public hearings with respect to it will be held early in May. It is anticipated that these hearings will develop facts and opinions relating to current industry practices and programs and also relating to problem areas revealed by preliminary investigations. Moreover, the Special Study will send questionnaires to approximately 300 broker-dealer firms requesting information on their

practices in hiring, training, compensating and supervising persons engaged in selling securities to the public. The resulting information should clearly inform the Commission of the extent to which existing legislation and rules are inconsistent with the continued and necessary development of professional standards in the securities business.

Finally, I feel this is an appropriate forum for offering our present views with respect to the Commission's relationship to stock exchanges. As you all undoubtedly know, the Re and Re case resulted in the expulsion from the American Stock Exchange of a firm of specialists charged with wholesale violations of the Securities Act of 1933 and the Securities Exchange Act of 1934. Almost immediately after the argument in the Re case, the Commission directed a special investigation of the rules, practices and procedures of the American Stock Exchange. The product of this investigation was the staff report on the American Stock Exchange which was released earlier this year. In that report the staff concluded that, in the case of the American Stock Exchange, the statutory scheme of self-regulation in the public interest had not worked in the manner originally envisioned by the Congress. This failure of self-regulation was

illustrated by detailing the failure of the Exchange to regulate its members properly and the ineffectiveness of the Exchange's supervisory and disciplinary procedures.

In its report the staff further expressed the hope that self-regulation on the American Stock Exchange could be revived within the present framework. I might say this has been a guiding principle in the Commission's relations with the American Stock Exchange. We have expected it to take the lead in performing its own rejuvenation. The reorganization of the Exchange has resulted in substantial changes occurring in its staff, organization, and constitutional structure. All of these steps appear to be in the right direction and indicate to me that responsible members of the industry have both the determination and ability to operate an exchange in the manner contemplated by the Congress.

The Commission believes that giving to the exchanges self-regulatory duties is a sound approach. At the present the Exchange Act imposes a heavy responsibility upon an exchange over its members. This type of control if properly effectuated can result in an effective and permanent form of discipline. It allows for control of ethical, not just legal, standards. Moreover, self-regulation obviates the need for extensive government

intervention into an extremely complex area, with its consequent expense, and places the initial burden on the proper instrumentality -- the industry itself, which can only be damaged by low standards or lax enforcement procedures.

I wish to emphasize that this self-regulation viewpoint does not in the least contemplate abdication by the Commission of its responsibilities. I believe that the Commission must always be in a position to lead the financial community in the raising of its standards, to demonstrate that short-run goals may not be adequate over the long run, and to take disciplinary action if improper and unlawful conduct is engaged in, particularly where no appropriate punishment is meted out by the exchange itself. Furthermore, the extent of Commission supervision over an exchange must vary with circumstances. In the case of the American Stock Exchange, the Commission has felt a very strong responsibility to assure that the Exchange does a proper job of reorganizing itself and, accordingly, closer than normal coordination has been required.

The Market Study will analyze the role and functions of the regional exchanges. A primary emphasis will be on their operation as self-regulatory institutions. Such an analysis will include study of their constitutions, their

administrative establishment, their disciplinary procedures, and the operation of their staff systems. As demonstrated by the report on the American Stock Exchange, in order for self-regulation to be effective, an exchange must have an adequate organizational setup to properly regulate and supervise its members.

We shall further examine certain operational functions which appear unique to the regional exchanges. As you may be aware, the Market Study is intensively studying the role and function of specialists on the New York Stock Exchange. We shall further review the specialist-odd-lot systems on the regional exchanges.

Furthermore, we shall analyze how the regional exchanges operate as primary and dual markets. As you know, the regional exchanges now function primarily in the latter capacity and we hope to analyze their performance particularly in this role.

In conclusion, I would suggest that industry and its counsel should avoid exhausting their resources on non-existent problems and phantom issues. I would say: do not concern yourselves with things the Commission may never do or recommend, but concentrate upon the means

and procedures of raising standards in your industry. We have enjoyed the cooperation of the industry since the inception of the study. We hope to continue to enjoy this cooperation. We have had frank discussions with many of you on problems in the business. You have promptly responded to our questionnaires, offered assistance as to their best execution, and given encouragement for the successful completion of our labors.

The achievement of a professional status for the securities business is not an easy task, but is a worthy objective. A responsible securities industry is a vital ingredient of our national well-being and neither you nor we can tolerate any practices which impinge on the integrity and orderly functioning of the market place.