EXECUTIVES' CLUB News

Volume 48, No. 7 CHICAGO, ILLINOIS 60602 November 5, 1971

SEC Commissioner Urges American Business to Give More Attention to Consumers

SPEAKER CITES OBJECTIVES

Greeting the commissioner of the United States Securities and Exchange Commission were (L-R) Richard W. Simmons, Senior Vice President, Blunt, Ellis & Simmons; O. Earl Palmer, Director of The Club; James J. Needham, Guest Speaker; George F. Griffith, President of The Club; Arthur A. Baer, Chairman of the Board, Beverly Bank; Edward H. Robertson, Partner, Price Waterhouse & Company and David T. Hutchison, Partner, Murphy, Lanier & Quinn.

Commissioner James J. Needham said that in order for business to exist it must make a profit, but there are changes in the attitude of consumers and anyone who fails to recognize that change is not going forward with the rest of the economy.

PRESIDENT GRIFFITH: Good afternoon, gentlemen.

Our guest speaker has kindly consented to answer questions following his talk if time will allow.

Today we will hear from James J. Needham, Commissioner of the United States Securities and Exchange Commission and President Nixon's first appointee to the SEC.

Speculation has it that if an archeologist of the 25th Century were to uncover a stack of prospectuses of the 1967-1969 period and try to reconstruct from them what life in America was like, he might visualize a string of communities made up of precut houses with a hamburger stand on one corner, a fried chicken shack on another, and a nursing home on the third (laughter)—all hooked up by wire to electronic gadgets and quick food shops synchronized by unbundled programs on leased computers. (Laughter)

The public invests about $7 billion a year on new issues of securities to finance the aforementioned enterprises and many, many others of all kinds. All of these new issues are analyzed by the Securities and Exchange Commission to assist the securities industry to administer and police itself. By definition, the term "securities industry" includes brokers, dealers, trading markets, and the self-regulatory organizations consisting of the exchanges and the National Association of Securities Dealers.

For approximately 35 years following the passage, in 1934, of the Securities Exchange Act and the creation of the Securities and Exchange Commission, the securities industry functioned smoothly and earned the trust and respect of the investing public. But then, in the late 1960s, as so many of you well know, the securities industry bogged down into utter chaos for a number of reasons including the paperwork blizzard which hit the yet untamed computer.

Mr. Needham entered the battle to restore order and control of the securities industry in June of 1969, when the Senate confirmed his nomination as a member of the SEC, the only accountant among four lawyers on the Commission.

Mr. Needham had previous exposure to the securities industry prior to his appointment to the SEC, due to the nature of his work in the accounting field, having had extensive experience with Price Waterhouse in New York; then as a partner with R. J. Hyer and Company; and finally as the partner in

Our Next Program

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Ambassador of the Republic of China to the U.S.

November 12, 1971 Grand Ballroom, SHERMAN HOUSE

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stands unalterably for the Constitution of the United States as handed down to us by our forefathers and under which we have lived for the past 175 years; and affirms that the fundamental principles it asserts form the basis of true Americanism.

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EXECUTIVES' CLUB NEWS

Published weekly from the second Friday after Labor Day to the first week in June.

THE EXECUTIVES' CLUB OF CHICAGO

111 West Washington Street, Chicago 60602

ANdover 3-3500

Annual Subscription

$10.00

Extra Copies 15 cents

"Second-class postage paid at Chicago, Illinois."

charge of the A. M. Pullem & Company New York Office.

While favoring certain changes to solve its many problems, our speaker retains the belief that ownership and regulation of the securities industry must be left in the hands of the private sector subject only to Federal oversight, as it is today.

So, gentlemen, it is my distinct pleasure to present a man who still believes in minimal government intervention, Mr. James J. Needham, Commissioner of the United States Securities and Exchange Commission, who will address us upon the subject of, "American Business, the Investor, and the SEC".

Mr. Needham. (Applause)

COMMISSIONER NEEDHAM: I don't think I can speak any more eloquently than that introduction did; and I think, and I believe, I would be well advised to leave now. (Laughter)

Mr. Chairman, Honored Members of the Dais—and I might add I haven't seen a dais this long since they paraded out the Chicago Bears one day a few years ago—and Honored Students, and Ladies and Gentlemen: I had a session just a little while ago with the honor students, and if any of you are losing confidence in the youth of America, don't!

I expect to get the usual, routine questions about, "You live in Washington. How does your family like it?"

The first question I had thrown at me was —by a student, "Why can't mutual funds join stock exchanges?" (Laughter)

We cut that session real short. (Laughter)

But that will give you some idea that some students do read the papers and are interested in business.

Free Enterprise System Fundamentals Is Needed in Schools

One of my constant complaints is, frankly, that I don't think the high schools really do the job they should do. I never thought they have done it, in teaching our young people the fundamentals of our free enterprise system. And before I leave the Commission, hopefully I will be able to interest some private foundation in spending the money that is necessary to spend in developing a curriculum which will put the emphasis in the right place; and then through some national educational organization persuade the educators around the United States to make it mandatory to teach this curriculum in every high school in the country. (Applause)

I think that anyone who spends a short time at the SEC will very quickly learn another reason for wanting to do that. It is just amazing to us how many well-educated, informed, professional business people are fleeced of their money every year.

Of course, we don't think an education in business at the high school or the college level is going to do away with original sin (laughter). The hope lies within us all for a fast buck. But nevertheless I do think a better-informed adult population would be less inclined to part with its money so easily.

Cites Progresses Made in Chicago

It is always a pleasure for me to come to Chicago. I first came here in 1946, to go to boot camp up at the Lakes. I had been in the Navy at that point about two years, and they thought that it was high time I learned the fundamentals of Navy life. (Laughter)

Chicago is the city I visit more often as a Commissioner than any other city in the United States; and I probably do a little more travelling than some of my colleagues do because I feel it is so important for people in Washington to get away from Washington—not only to improve their perspective, but also to talk to people around the country and find out what their problems are, and open up lines of communication.

And no one who believes that can possibly ignore this city.

I was delighted to read in Business Week this week that Chicago is making progress in areas where no one else seems to be able to. The conversion of the Stock Yards hopefully into an industrial area will provide job opportunities for people who live in the Inner City. It is unfortunate that not enough other cities are going to be in a position to do that.

The Midwest, too, has always been known back in New York, where I come from, as an area of innovators, and certainly the Midwest Stock Exchange and the Board of Trade are innovators in the securities industry.

I am glad to be here with Mr. Wilson today if only to encourage him and his Board of Trade's efforts in trying to develop a put and call market for securities. I hope that they will be able to bring the securities industry much of the expertise that they have gathered over the years in dealing with commodities.

The Midwest Stock Exchange is a prime example of what can happen when you have competing forces. It is true it is not anywhere near the prime market that the New York Stock Exchange it, but its primacy is rather with ideas and innovations, and there was no question in anyone's mind in Washington but that Chicago leads the way in that area. I compliment the members of the Midwest Stock Exchange and in particular their able President, who isn't here, Mike Tobin.

Explains Duties of Government

Some people have the wrong idea of what government is all about, and they don't understand that we don't solve a lot of problems of the private sector.

But government was not intended to do that in my mind. Government exists by virtue of the rights that we have passed on to it,

NOTICE

Please **do not** bring lady guests to meetings unless the announcement specifies that ladies will be admitted. It will save **you** and **The Executives' Club** embarrassment.

and its proper role is to govern and at times to add stimulus and motivation and funds to assist the private sector in doing those things which it cannot do for itself.

But the primary source of revenue for the Federal Government does not come about as a result of the printing presses at the U. S. Mint. It comes about as a result of the activities of the private sector.

Payments that the government makes are transfer payments. Payments the government receives come about through taxes, levied across corporate and personal income, so that anyone who thinks that the Federal Government generates money does not understand the process.

SEC's Interest

The SEC is very concerned and very interested in seeing to it that our activities, which may not always meet with universal acceptance, do not in any way impede the profitmaking process in the American business system. And it is strange that we should have conflicting forces in this area.

Keep in mind I am only concerned with the bottom line. I don't care what you do up at the top to get there as long as it is honest; but our concern with the bottom line in the last few years has become even more important and a more significant concern, because now we have the gigantic growth of mutual funds—$50 billion in assets; profit-sharing plans with assets far in excess of that; pension plans included therein, so that in my view at this time every American citizen—whether he is a laborer, craftsman, a professional, a government employee—all have a stake in the free enterprise system.

Because it will be through that system that the investment to these mutual funds, and pension plans, and profit-sharing plans will retain their value and make possible, hopefully, the happy retirement days that so many of us look forward to.

There are a number of interesting questions that I am going to be asked, in a little while and I want to be sure to save some time for them. But I do have a few remarks I would like to make about what is going on in Washington.

I would like to start out by saying that despite all of the problems that the securities industry faced in the last two or three years, where we saw major brokerage firms collapse because of financial conditions within the firms, not always created as a result of systems breakdowns—more often created as a result of poor management — during all of that time the investor never lost his confidence in the marketplace.

During that time we had the highest trading volumes on a sustained basis that this country has ever had; and I think that that is a tribute to the people who managed the securities markets, that while their brethren were falling by the wayside, some one hundred of them on the New York Stock Exchange, the marketplace was just as liquid, just as honest, as it was in the days when they traded one, two, three, four, five million shares a day. I congratulate the private sector on that performance.

I thought I would save my discussion of the market for later and just touch on one or two things that I think you may be interested in.

SEC and the Corporation

Some of you, particularly those of you who are members of publicly-held corporations, are aware of the role that the SEC plays in connection with annual meetings. Your proxy material—under most circumstances—has to be presented to us, and we, hopefully, will take a "no action" position on it.

Of course, with the growing awareness of corporate responsibility, we have seen develop in the United States increased shareholder participation in the affairs of business. In some cases the affairs that the private sector thought were exclusively their concern, or no concern of the shareholder, and to other businessmen, that the businessman's sole function was to generate a profit—and there is no question that the existence of business is to generate a profit—but anyone who is willing to recognize the change in this country; the change in attitude; the change in responsibilities—anyone who will not recognize that change is not going to go forward with the rest of the economy.

So that I think at that point the American businessman can best serve his own interest by recognizing that ecological forces, to use that as an example, are forces that must be dealt with—dealt with rationally and in a mature way.

Now one of the troubling aspects of this transition, if you will, from that which was and that which will be, which troubles the SEC, is that our proxy rules are being used as a vehicle for this expression of corporate democracy.

Now the statutes which I and my colleagues administer have plenty of flexibility. We can stretch them in lots of different ways. We hesitate to do that, but we have in the past, and we undoubtedly will continue to do so in the future.

Opposes Supreme Court Decision

And we at the Commission are aware of the Supreme Court decision that says that every man—the one man, one vote—that every voice is as important as every other voice. But we are having trouble fitting that into shareholder democracy.

Should one man be able to inconvenience several hundred thousand shareholders in grinding the wheels of a business to a halt in some cases—delay annual meetings; force a business to incur substantial amounts of money to print alternative shareholder proposals on social issues?

The tradeoff there is that this still is a democracy, and everyone has a right to say what he wants to.

Now there is no question that some opinions are better than others, but when you sit in Washington it is kind of a frightful thing to realize the power that you have to stifle the creation of ideas.

We could, I think, very simply say that no one, unless he owns 10 per cent or five per cent of the outstanding stock of a company has a right to insist that his proposal be included in management's proxy. But that would be to deny the reality, and the reason, and the rationale, and the history of this country, so that we cannot approach it quite that simply.

I don't have a solution for you today, but I thought I would give you at least some of the thinking that goes on in the Commission in this area.

Accounting Standards Should Be Improved

Accounting is something else that the SEC is very much concerned with. I think the SEC and most rational and sensible businessmen realize that it is very important to improve accounting standards; not only the performance of the day-to-day work, but there has to be somewhere an answer to the question of how to resolve the accounting alternatives, so that when the reader of a financial statement picks it up and looks at it—and if it happens to be a steel company, that he is reasonably sure that if he compares that steel company with another steel company, he is seeing comparable financial reporting standards applied, so that he has a basis for comparison and he can make a sound business judgment as to whether or not he wants to sell one security and buy the other. The Commission is supporting that actively.

It was never intended in accounting that the profit-and-loss statement would be the final resting place of all dangling credits, that people who did not know what to do with a credit item, it would end up in the income statement and be reported in earnings per share. And to that end the SEC has recently advised the Accounting Principles Board that in connection with the investment tax credit—unlike that condition which existed some years ago, where the SEC would allow a company to report the investment tax credit in one year, or to spread it out over several, the SEC has decided that we will only allow issues to report investment tax credit over the life of the related asset.

Therefore, there will not be these gyrations in net income which result from national policy rather than from economic reality.

Hearings Now Being Conducted

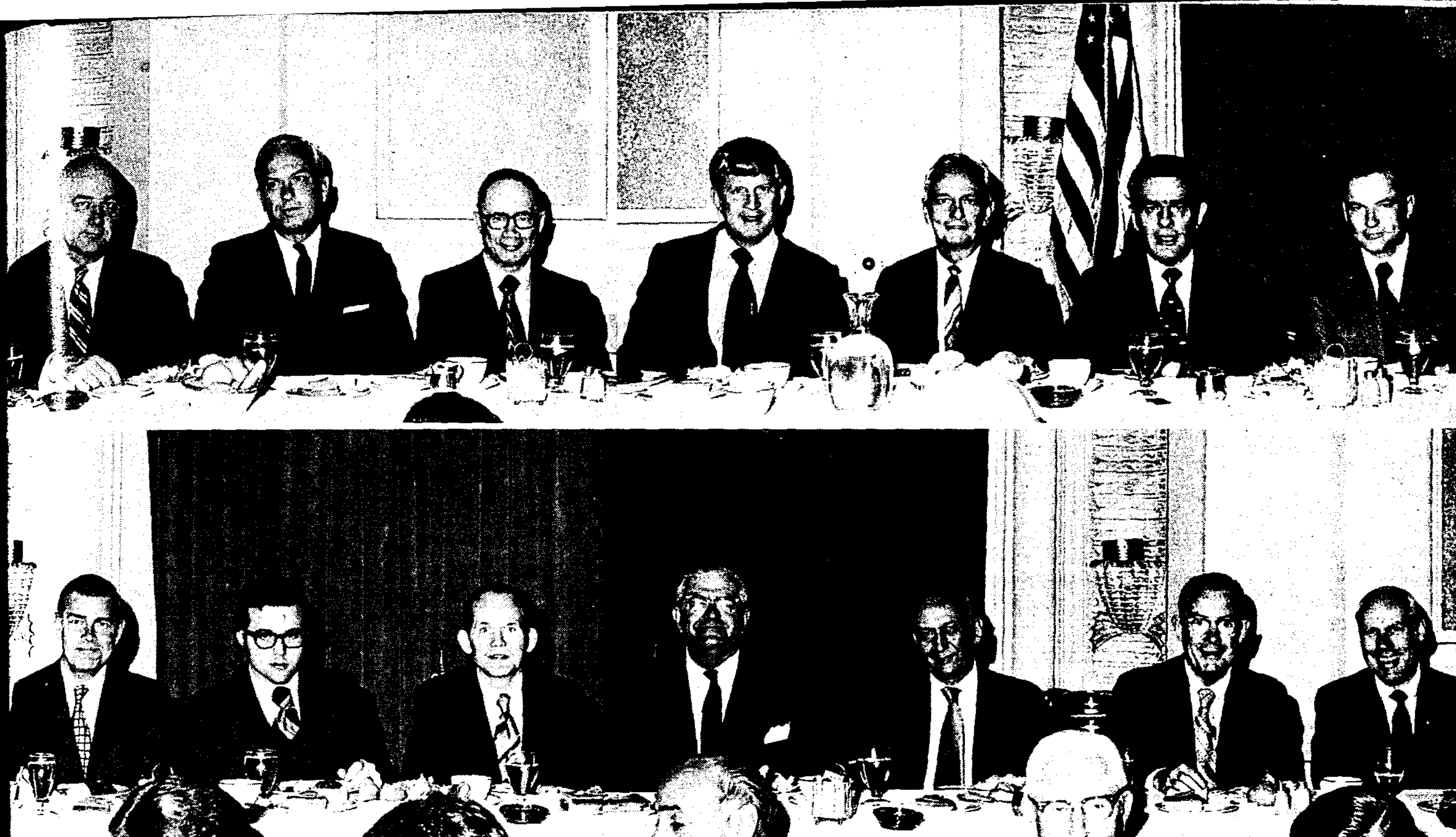
Turning now to the market—as you all know I am sure the SEC currently is conducting extensive hearings about the securities market; and those hearings are taking place today while I am gone.

Let me tell you what is happening at these hearings.

We have heard from all kinds of people. We have heard from Midwest Stock Exchange; New York Stock Exchange; the AmEx; the Pacific Coast will be in; Philadelphia, Baltimore, Washington have been heard. We have heard from Merrill Lynch and Paine Webber; and we heard yesterday from some of your local companies—Blair, Blyth. We heard from the Association of Regional Firms. We are going to hear from individual investors.

And we are going to put it all together, and in our wisdom we are going to decide, first, how much can be decided; and second, what the answer should be.

But there seems to be emerging from these discussions one common thread, which says,



Guests and members seated at the Speaker's Table Friday, October 29, 1971, to hear James J. Needham were (top left to right) Gerald R. Nagle, John L. Cella, William J. Casey, Harold A. Bergen, Gordon L. Teach, Richard L. Barker, Arthur A. Baer, Henry G. Van der Eb, Walter J. Oliphant, John I. Mayer, William F. Hartnett, Jr., Edward H. Robertson, James J. Needham and George F. Griffith (President of The Club). Shown below (left to right) O. Earl Palmer, Roland J. Barstow, Charles F. Nelson, William M. Phelan, Alva W. Phelps, Richard W. Simmons, Henry H. Wilson, Burton L. Hinman, Jr., John C. Bachman, William Arrott, Palmer App, Gerald A. Williams, Redmond J. O'Hara and John W. Nelson, Jr.

in effect, that something has to be done in order to maintain a level of investor confidence.

Results of Hearings

That something seems to be a forming of a central marketplace—a central marketplace which will retain the characteristics of the existing market.

No one, apparently, is in favor of abolishing the over-the-counter market, or the New York Stock Exchange, or the Midwest Stock Exchange; but everyone recognizes that these markets have to be tied together.

The investor is best served if there is competition between those who maintain the markets and those who want to use them.

And so what seems to be evolving through these hearings is a recognition that the markets must be tied together at least in the first instance by communication systems, so that people who want to buy A T & T in Chicago will be able to see at the same time whether the market in Philadelphia is better, or as good as the market in Chicago; and the investor in Philadelphia will have the same right and opportunity there. So that seems to be emerging from this hearing of ours.

Also emerging, I think, is a common understanding of the problems of institutional membership. The genesis of the problem, of course, is the growth of the institutions themselves. Added to that is a layer of legal opinion indicating that a fiduciary has the responsibility to recover commission dollars.

Another layer is the fact that the commission structure itself of the brokerage industry, at least on the higher transactions, the large institutional-size transactions, was not related in any way to the cost of executing and performing other services for that type of customer. So a lot of fat was built into it, and a lot of reciprocity grew out of that condition, and not all of that reciprocity was healthy.

Pressure to Reduce Brokerage Cost

So the pressure is on to reduce the cost of brokerage on large institutional-size orders; and I think that most people at this point are beginning to realize that that type of reduction will reduce the incentive that some institutions have for joining an exchange.

Nevertheless, there will still be those who will want to join for other business reasons, because they think that the brokerage industry is a very profitable industry to be in.

So a way has to be found to accommodate that objective.

The question is, did the brokerage industry through its rules have the right to say to American business that, "We can be in any business we want to be in but you can't be in ours"?

I don't think that is competition in a free enterprise system. So that problem has to be resolved.

Another aspect of the institutional membership question is related to their activity in the market. As you may know, they represent 60 or 70 per cent of the trades on the New York Stock Exchange every day. And so the question is this: Do we want to allow a customer to do his own trading on the floor of the Exchange?

If we do, what kind of a business flows from that?

Well, I wasn't old enough to know at the time, but in the late Twenties, and I don't see too many here that would know, either, from personal experience—but in the late Twenties, the pools were very active; and a pool was used to manipulate the market price of a security.

We certainly learned something from that. We didn't have to be there in order to appreciate how wrong it was. We are not going to let that occur again. No one wants that, least of all the institutions.

Tells Objectives

So, what we have to do, again, is to reconcile the public interest with the legitimate demands of one segment of the investing community, the large institutions.

Where are we going to come out?

I do not know.

But it is interesting that more and more people are beginning to think that the Midwest Stock Exchange has proposed an acceptable solution to this problem. And that, again, is a tribute to the people on the Board and the organization of the Midwest Stock Exchange.

I do not predict that we are going to go that way, but it looks to some as one of the acceptable ways of solving this problem.

GUESTS AND MEMBERS SEATED AT THE SPEAKER'S TABLE OCTOBER 29, 1971

Gerald A. Nagle, *Senior Vice President,* Material Service Corporation.
John L. Cella, *Vice President,* Seay & Thomas, Inc.
William J. Casey, *Vice President,* Amsted Industries International.
Harold A. Bergen, *President,* Ruder & Finn of Mid-America.
Gordon L. Teach, *Executive Vice President,* Shearson, Hammill & Company, Inc.
Richard L. Barker, *Vice President & Comptroller,* Hart Schaffner & Marx.
Arthur A. Baer, *Chairman of the Board,* Beverly Bank.
Henry G. Van der Eb, *President,* Container Corporation of America (Member, Executive Committee of The Club).
Walter J. Oliphant, *Senior Partner,* Arthur Andersen & Company (President, American Institute of Certified Public Accountants).
John I. Mayer, *Administrator,* Chicago Regional Office, Securities and Exchange Commission.
William F. Hartnett, Jr., *Chairman of the Board,* Hartnett-Shaw Development Company, Inc.
Edward H. Robertson, *Partner,* Price Waterhouse & Company.
James J. Needham, *Commissioner* of the United States Securities and Exchange Commission (Guest Speaker).
George F. Griffith, *Attorney at Law* (President of The Club).
O. Earl Palmer (Director of The Club & Chairman, Speaker's Table Committee).
Roland J. Barstow, *President,* Bell Federal Savings & Loan Association.
Charles F. Nelson, *President,* Bee Line Fashions.
William M. Phelan, *Vice President,* Chicago Mercantile Exchange.
Alva W. Phelps, *Chairman of the Board,* Old Orchard Bank & Trust Company.
Richard W. Simmons, *Senior Vice President,* Blunt, Ellis & Simmons (Chairman of the Board of Governors of the Midwest Stock Exchange).
Henry H. Wilson, *President,* Board of Trade, City of Chicago (Member, Executive Committee of The Club).
Burton L. Hinman, Jr., *Vice President, Manufacturing and International Operations,* UARCO, Incorporated.
John C. Bachman, *President,* Automated Marketing Systems, Inc.
William Arrott, *Vice President,* Gardner, Jones & Cowell, Inc.
Palmer App, *Vice President,* Lumbermens Mutual Casualty Company.
Gerald A. Williams, *Treasurer,* Heitman Mortgage Company.
Redmond J. O'Hara, *Branch Manager,* The Shaw-Walker Company.
John W. Nelson, Jr., *Assistant Vice President,* Mid-City National Bank of Chicago.

Securities markets in the United States are the finest in the world, and related to that is the ease with which American business people can raise money when they need it. And also, the Federal Government and small municipalities.

We talk always in terms of the numbers of shares traded on the New York Stock Exchange, but if you move into the over-the-counter market where there are the unseasoned companies for the most part, the amounts involved in terms of shares are more staggering; and if you go to the government and municipal bond sector, where they trade in the course of the year something like $400 billion worth of bonds, you can see why, and with great ease, and in that area they do it telegraphically—you can see why the SEC is not moving precipitously—why we want to hear from everyone.

Because we do not want to destroy this mechanism. We are not approaching the problems of the securities industry with a butcher's knife. We are approaching it, rather, with a surgical instrument. All we want to do is tune it up a little over here (indicating), and tune it up over there (indicating); make it more efficient; make it more competitive; and also, make it to be the finest security market in the world.

That is what our objectives are, and hopefully we will be able to reach that end before the end of this calendar year.

What will the markets of the future look like?

I still think, as I said last May, and as McChesney Martin thinks, and I think more people are beginning to think they will be, they will have essentially two systems, and I hope that we will always have at least two systems in the securities markets.

We will have an amalgamation in some form, even if it is just a communications center, of the systems; and a sophisticated place for trading over-the-market securities. Those are the two systems, and hopefully they will be competing with each other on a viable basis; because if we do not have two competing systems I worry.

It seems to me any time you have one system, one enterprise, one monopoly, the next logical step is federal control; and that is something I know my colleagues and I are opposed to. We want the running on a day-to-day basis of the securities market to remain in the private sector. We think that on balance that is where it belongs, and we think a lost of the criticism of the securities industry is not really founded on fact, but rather is stimulated by people who write articles and who study it in perhaps a more abstract way, and who really are not confronted with the daily problems from a solution point of view.

One of my former colleagues said that when one talks about the securities industry he should approach it with the same caution that two porcupines about to make love approach one another. (Laughter) And I suspect he is right.

I hope that is the way the SEC will approach the formation of our new securities markets.

But I do not hesitate to say here that we still have the finest securities markets in the world. It is still the best place for American industry to go for funds; and it is still a good place for the American investor to place his savings.

Thank you very much. (Applause)

PRESIDENT GRIFFITH: Thank you, Commissioner, for a very encouraging and profitable talk.

Those of you who must leave, will you please do so as quietly as possible so we can go on with the questions?

We have a group of questions here which are related, and were touched on somewhat in the talk.

Mr. Needham, here are the first ones:

There have been complaints made that the SEC is not doing an adequate job. Are such complaints justified? And what is being done to improve the SEC's capabilities?

COMMISSIONER NEEDHAM: Now that I have been fed I guess I am a fair target. (Laughter)

Well, everything is relative. If someone says we are not doing our job, an adequate job, that is a relative expression.

I do think that there is something to be said, though, that the SEC, from where most people view it—the outside—did not seem to be adequately prepared to deal with that which developed.

Well, neither was the industry.

No one ever anticipated that we would have 20 to 25, 30 million share days within the last three years.

EXPLAINING THE BROKERAGE FIELD

Invited high school students have question and answer session with Guest Speaker Comr. James J. Needham, before the meeting. The following schools were represented: Von Steuben, Mather, Amundsen, Cooley Vocational, Marshall, Senn, and Westinghouse Vocational.

In 1965, an estimate was made by a very knowledgeable economist who was then assigned to the New York Stock Exchange, that in the 1970s, the industry could look forward to a 10 million share day.

Well, a 10 million share day isn't anything.

So we weren't geared up and the industry wasn't geared up, and I guess there are some who would say we didn't do an adequate job.

But I come back to one important point. Regardless of what you may think, the capital markets remain intact, and I think that is what our primary job was, to preserve them.

PRESIDENT GRIFFITH: Thank you, Mr. Commissioner.

Here is another group of questions which get to be a little explicit.

Would you say brokerage firms are financially sounder than in say 1968-1969?

How is it that so many brokerage houses have gone broke without warning?

What is the Commission trying to do to improve conditions in the brokerage business? And perhaps connected—

What are your views for having brokerage firms publicly held?

And do you see additional consolidations and mergers among brokerage firms?

COMMISSIONER NEEDHAM: When I was in business I used to charge for these answers. I might add I didn't get much, either. (Laughter)

Well, what condition is the brokerage industry in?

I think, I believe, that based on the information that I see—I think it is as good as any seen by anyone else—the brokerage industry is in far superior shape financially than it was a year ago.

There will always be one or two firms that will be on the ropes, and that is no different from—I am not going to pick out an industry; that will create a sell market—some industries. (Laughter)

How is it that so many brokerage houses have gone broke without warning?

Well, I think in this area it is fair to say that the self-regulatory mechanism and the SEC failed to develop many years ago a warning system which would detect the troubled firms sooner. And as a result of the failure to create that warning system, a number of firms just went out of business on a surprise basis.

I want to tell you that is how I got started at the SEC. The first thing I knew there was Hayden Stone, and I could go down the line; and it was quite an experience for me. I didn't have my feet wet and I was presiding over the deaths of a lot of institutions that were hundreds of years old.

Today we have what we think is an early workable warning system so the likelihood of a firm going down without our knowing it months in advance, and hopefully a year or two, is extremely remote.

What are your views about brokerage firms being publicly owned?

I think they, like any other American business, have the right to sell their stock to the public. I think they are incapable of raising the kind of money necessary to remain in business. I am very bullish on that subject.

Do you see additional mergers and consolidations among investment firms?

I think the way to answer that question is to say that what is applicable to the rest of American business is now applicable to the securities industry; and those trends which develop in the American business generally will be detected in the securities as well.

PRESIDENT GRIFFITH: Here are two questions concerning an interesting problem:

What is the Commission trying to do to ward off another paperwork crunch in Wall Street?

And is the day coming when stock certificates can be done away with?

COMMISSIONER NEEDHAM: Well, the certificate is a very well-established concept at this point, and I think it will happen, and there will be a day when the certificate will be no longer around.

But I want to answer that very quickly by saying that that will be an investor's decision to make.

The present thinking at the Commission is even if we were to go this route tomorrow, which we cannot, we would still allow investors the right to retain their investment certificates.

I mention that only because I testified last week on The Hill, and the Wall Street Journal failed to mention that in the story. I received a lot of mail and in one of the letters it said:

"Mr. Needham, you and your Chairman are getting too big for your briches." So, to save someone the trouble of writing me a letter I am just explaining it. (Laughter)

Now, what is the Commission doing to try to ward off another paperwork crunch?

What we are doing is policing what the securities industry is doing, and we are cooperating with Congressman Morris, who is currently examining this entire area to see whether or not federal legislation is required in order to create the type of securities system which will prevent a recurrence of the back office problem.

The question is still up in the air.

PRESIDENT GRIFFITH: I think we have time for two more groups, Mr. Needham:

Do you believe that the small investor is being frozen out of the market?

Are you of the belief that all brokerage firms should accept any customer without regard to the size of his order?

And if some of the large firms can handle small accounts at a profit, why can't they all?

Do you think that the securities industry is entitled to higher commissions than it has had in recent years?

If brokerage commissions are boosted, won't that put an additional squeeze on the small investor?

And in your opinion how do small investors hurt brokers?

COMMISSION NEEDHAM: When you said we had time for two more questions you meant two hours. (Laughter)

I don't know about you folks, but I am leaving at two.

I don't think the small investor is being frozen out of the market. I think that a lot of people are writing stories about that, and a lot of investors have gotten the impression that they are.

I think, too, that the securities industry, until recently, did not publicize their interest in the small investor adequately, and as a result there was a vacuum there of mutual interest, and I hope that that has been overcome.

Do I think that brokerage firms should be required to accept any customer?

Well, let me put it to you this way: Should the wholesale meat packers have to accept any customer, even the retail customer?

I think the answer to that is no.

I think that brokerage firms that have never dealt in the resale end of the securities business should not be required to take on any customer that comes along.

I still think there will be a great interest in the resale to the individual investors among those firms who are currently serving that segment of the investing public.

If some of the large firms can handle small sales why can't they all?

If you listened to the testimony at the hearings you would find out that very few firms really make a profit on the small trades. Merrill Lynch's President and Chairman, John Regan, said the other day that they will sell cans of pepper as well as $50.00 bags of groceries. They just offset one against the other and hope they make a profit at the end of the year.

I think that is the general trend of the people in the securities industry.

Should the securities industry get higher commissions?

They just got them.

I am asked if I do not think commissions are a factor, and I would like to emphasize this point because so much has been written and so much has been said about it.

There are three things that an investor should consider when he makes his investment.

The first one is the quality of the investment; what company is it in which he wants to invest.

The second factor is what is the price of that investment?

And third, what will it cost him to acquire it?

I think if investors keep it in that sequence they will find that transacting a securities purchase or sale is still one of the cheapest transactions you can affect in the United States.

So, I do not really see it as a major problem.

I do think we have to be more understanding of the needs of the small investor. But I do not think, once he realizes what is going on, that he is going to walk away from the securities industry just because of brokerage fees.

PRESIDENT GRIFFITH: Here is the last question, Mr. Needham:

In your opinion, what is likely to happen to the so-called Third Market as the result of the market report and legislation brought about by that report?

COMMISSIONER NEEDHAM: Nothing is going to happen to it. It is still going to be as profitable as ever.

It is just that it it will not be a Third Market, I don't think. I believe it will be integrated into the existing markets, the over-the-counter market, and into the exchange markets.

No one is going to put it out of business. They are performing a very vital function right now.

Some of us may have different feelings about the circumstances under which they operate because their transactions are not disclosed, but I think we recognize they are performing an adequate service, and they are an important ingredient of the securities market, and they will find a way to bring them into the overall scheme of the marketplace.

PRESIDENT GRIFFITH: Thank you, Mr. Needham, for a very informative talk.

The meeting is now adjourned. (Applause)

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