

The Role of the American Stock Exchange

Remarks of

J. SINCLAIR ARMSTRONG

Chairman  
Securities and Exchange Commission  
Washington, D. C.

at the

Annual Outing of the  
AMERICAN STOCK EXCHANGE

Scarsdale, New York

June 19, 1956

Our New York Regional Administrator, James Sargent, and I have come out to this meeting after the proverbial "hard day at the office" while you have been golfing and enjoying a day's relaxation. It is not unnatural that our mood might be different, our minds on different things.

We have been spending the day in the serious enforcement problems that affect the New York Regional Office of the Securities and Exchange Commission, and also seeing to some of the myriad details involved in moving our staff of over 100 people to our new offices at 225 Broadway - the move to occur July 2.

Among other things done today was the release of the Commission's decision in regard to the application of the Federal Securities Act and Investment Company Act to variable annuities. We filed suit in Washington, D. C., today against the Variable Annuity Life Insurance Company of America, Inc., to bring to court test our conviction as to the applicability of these Federal securities laws to certain of the instruments sold and funds administered by this firm.

The Commission has been studying the applicability of the statutes that it administers to this firm's contracts for a number of months. This study has been in line with the Commission's responsibility, under the Securities Act, to protect investors, by requiring prior registration of, and the delivery of a prospectus containing material information concerning, securities that are publicly offered. The study has related also to the Commission's responsibility to regulate investment companies under the Investment Company Act for the protection of investors in such securities. While proposals have been made elsewhere for the issuance of so-called "variable annuities," this is the only case thus far presented to the Commission for its consideration.

We have been busy in our New York Office today on this and other problems, and so I will intrude upon you but briefly. However, in view of the times, you will not, I am sure, take it amiss if I use this occasion of your annual outing to plant a few serious thoughts.

First - you must realize the importance to the capital markets of exchanges such as yours. You are in competition with the giant New York Stock Exchange. You account for 21.9% of all the transactions on exchanges in listed and unlisted trading privileged stocks, and the market value of your securities is almost 8% of all exchange securities. The market you provide is a proving ground for the securities

of many growing companies. It is a bridge, and a very vital one, often, between unlisted status and the ultimate growth to stature of trading on the big board. Your market is also the established permanent trading area for the stocks of many companies, large and not so large. The market you and the regional exchanges provide for trading in securities may be better, more liquid and more satisfactory for the shares of particular companies than listing on the big board. The emphasis the Securities and Exchange Commission is placing on the importance of exchanges such as yours is shown by the on-the-spot studies made by Commissioners and staff within the past year of the operation of the American, Boston, Midwest, Philadelphia, Salt Lake, San Francisco and Los Angeles exchanges.

Second - you are doing an important volume of the public's stock-transactions business. Let me give you a few brief figures. Here are the market value of transactions and the number of shares traded on the American Stock Exchanges in certain earlier years and recently.

1935	\$ 1,205 million	85 million shares
1945	1,728	142
1953	1,125	110
1954	1,873	170
1955	2,593	244
1956 first 4 mos.	995	88

For the year 1955, and to date in 1956, this volume represents more than half of the market value, and almost two-thirds of the number of shares, of all securities traded on all exchanges other than the New York Stock Exchange.

Third - this volume of the public's business affects you with an important public interest which you must jealously protect against the abuses of the public that took place in the last great era of public speculation in the stock market in the 1920's and early 1930's before the Securities and Exchange Commission was established.

There are a number of factors at work in the markets today which pose grave dangers to the capital markets. First is the atmosphere of speculation, brought about by the very great economic activity of the past few years. A stock market should be a medium for investment, not just of pure speculation.

Second, because of this atmosphere, there is an observable tendency for people to be more lax in adhering to the Federal securities laws, the rules of the Commission under the Securities Act and the Exchange Act, and the self-governing rules of the stock exchanges and the National Association of Securities Dealers. People are more careless and some are deliberately in violation.

So I urge you, guard the reputation of your American Stock Exchange. If your Exchange is used only for purely speculative activity and the public gets hurt, you will reap the adverse public reaction. I am sure that you all recognize the need for supporting your officials in their efforts to obtain compliance with your American Stock Exchange rules. I am equally certain that you will all support the Securities and Exchange Commission in our investigations of manipulation, fraud and other violations, our efforts to assure compliance with our rules under the Federal securities laws, and our efforts to bring malefactors in the public security markets to book, and that you will not knowingly let the Exchange become a medium for illegal distributions or illegal activity.

Finally, let me relate the importance of the stock exchanges in the capital markets to the capital markets as a whole. Prices of outstanding securities determined by the buying and selling public in the free, open auction markets of the stock exchanges of this country have an important bearing on prices that may be arrived at when corporations go to the capital markets to sell new issues of securities for the purpose of raising new capital. The amounts of new capital that will have to be raised by corporations in the years ahead to sustain the needs of our increasing population, our rising living standard, our dynamic expanding economy, and our responsibilities for the defense of our country and the free world, are far larger than anything the capital markets have provided in the past. Many billions of dollars will be needed.

The channeling of these enormous amounts from the savings of the American people to American corporations will be the responsibility of the capital markets, in which the stock exchanges play a vital part. You of the American Stock Exchange will succeed in your part of the job which the capital markets must perform if you conduct your business so that it merits the continued confidence which the investing public has shown in the past few years. But if anything done in the market destroys that confidence of the investing public, the American free enterprise system will be the loser.