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ADDRESS

of

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at the

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It is not an easy task to choose a topic that is suitable for an occasion such as this. Those of you who are executives of exchanges keep in close contact with the work of our Commission. Indeed, not only do you of your own will maintain that closeness of contact; we of the Commission thrust it upon you by our policy of seeking consultation and debate before the initiation of important action. Those of you, whose daily life is not with exchange transactions but rather with business and its administration, are already familiar with the main outlines of our work. To set these forth in elaborate detail is a task for the seminar, and hardly an appropriate function of post-prandial efforts.

Yet these annual meetings afford genuine opportunities to contemplate directions and efforts, - for one, such as the President of the New York Stock Exchange, to consider the role of that great exchange in our national life; for one, such as I, to relate these institutions and the ebb and flow of the public transactions in them, to government and its concern with how they can be helped better to serve the public welfare.

A little over a year and a half have passed since the legislation relating to exchanges became operative. The main impacts of that legislation can be briefly summarized.

Margin control springs from concern over the power of customers to borrow on securities for the purpose of purchasing or carrying them. The end in view was to check the undue use of credit in our security markets and as a consequence of that end to reduce whatever individual speculative impetus might arise from the existence of easy money for those purposes.

The mechanism of registering listed securities seeks a greater portrayal for security holders, present and prospective, of both the nature of their interests and the results of the stewardship of corporate managers. Supplementary to that is the illumination for the investing public of the stake that management held in these enterprises, and of the fluctuations in that stake from month to month. Similarly regulation of the manner of soliciting proxies from stockholders, looks again towards sharpening the consciousness of security holders both as to their responsibility for management and as to management's responsibility towards them. These efforts bespeak a policy of seeking to make more intelligible our national corporate life, and thereby to make our public better able to master and control the direction and conservation of its savings.

A year ago the character of exchange management was also subjected to critical comment, and by mutual agreement changes were effected which sought to infiltrate a wider, even if indirect, public participation in such management.

In dealing directly with the manner in which transactions are executed upon exchanges, the functions of the various classes of exchange members, such as floor traders and specialists, were scrutinized and experimental means were adopted to keep their operations within the confines of the classical conception of their function. Rules relating to the manner in which certain transactions are conducted were suggested to the exchanges for adoption in an effort to eliminate potentially dangerous tendencies. And from the beginning, there was instituted a determined and continuous drive to remove from the exchanges the subtle as well as the patent forms of manipulation, together with the manipulators.

This is, of course, an inadequate picture of our activities - the exchanges' and the Commission's - during the past year and a half. It will serve, however, to give the outlines of the administrative scheme. Of course, these efforts are still far from complete. For all of us, so much in the way of development and refinement still remains to be done that one begins to believe that life's central tragedy focuses about the limitation of the day to twenty-four hours. In facing the work that is yet to be done we must, of course, consider not only the effort that our Commission must make but also the nature of the changes that have taken place, and will continue to take place, in exchange government and management.

Any examination of the program of the past year and a half will bring out that the standard of its growth is, broadly speaking, the protection of investors. Against ignorance, against sharp practice, against the temptation of easy speculative credit -- these have been the directions of advance. They are, of course, obvious means of furthering that aim of protecting investors and with varying degrees of emphasis, were already being pursued by exchange management before the beginnings of government effort.

The entry of government has, however, a threefold significance. The first is the added weight given to these efforts of self-governance. Indeed, even greater than this is the insistence upon adequate self-governance as a condition of the right of an exchange to continue to do business. This implies, of course, that not only must the aims of exchange self-government be directed towards furthering observance of the law, but it must assume the responsibility of so sharpening its self-governing powers as to make effective within the confines of its jurisdiction the objectives enunciated by the statute. The responsibility this concept places upon self-government is naturally great, for not only does it imply a sporadic accounting for the performance of that public trust before the bar of public opinion, but the type of continuous accounting demanded of institutions recognizedly public in their significance. The measure in which that challenge is met, is thus expressly the condition of both growth and survival.

Second, the entry of government into this field assumes significance because government, as distinguished from exchange management, can embrace with equal force and with uniformity of purpose the whole realm of securities dealt in nationally. Its concern with security transactions is not limited to those that occur on exchanges; the effective functioning of the over-the-counter markets and the appropriate inter-relationship between these and the exchange markets are equally its care. Its standards of conduct and practice apply with equal force on the large exchange and the small, and in the markets outside the exchanges. On exchanges, government can move to the source of any malpractice, for the sanctions which it can invoke extend beyond the membership of the exchange, beyond the domain of exchange government. And its power is the power of constituted governmental authority.

Thus the limitations that earlier surrounded exchange management in the handling of our national problem of investment and speculation no longer circumscribe the approach to this problem. As contrasted with difficulties which arose from lack of power, government's problem today is the proper exercise of power through effective administration.

The third significance of government's concern with exchange administration and functioning, is its definite enunciation, both as a faith and as an objective, of the goal of protecting our nation of security holders. It is important to recognize the social significance of setting forth an aim of this character as a national desire. That the aim was being pursued with more or less efficacy in the past can readily be admitted; but the springs of action lay in self interest, in the desire of the affected parties to establish a good-will properly to be capitalized upon. It is not difficult to recognize in good-will an asset of real value, and yet there is an enormous difference between directly approaching an objective as an end in itself and reaching that objective as a by-product of effort whose concern is immediately with other matters. In business the distinction may be described as the difference between the making of a livelihood and the creation of a way of life.

I speak of this Congressional mandate - the protection of investors - as significant because of the shift of emphasis that the injection of a command of that character implies.

Heretofore, the effort to protect investors has expended itself upon seeking to subordinate the role of speculative activity in the investment market. To keep it subordinated to the ultimate purposes of the market in the light of existing concepts as to the desirability of continuity and liquidity, requires a flexibility and deftness of administration that is yet to be achieved, as well as an assumption that there is the wisdom to recognize its undue intrusion. But to alter even slightly the accepted presuppositions as to continuity and liquidity, is to recast the constituent elements of the entire problem.

Closely allied with the problem of relationship of speculation to investment - concepts impossible of definition save on a subjective basis - is the education of security buyers to recognize the differentiation between the two. An inability to make such a differentiation not only affects the fortunes of the individual investor but tends seriously to alter the character of the market itself. The limited ability of the average buyer to judge of values makes of him too often a speculator unwittingly and contrary to his intentions, and thus injects into the market a disproportionate element of speculation. The quality of the advice which the average investor receives in forming his judgment of values, therefore becomes a matter of far-reaching significance. Careless and ignorant investment advice has repercussions which extend beyond the particular case to the very composition of the market. Concern over the ability as well as the integrity of advisors to advise is thus an essential aspect of the aim of protecting investors.

I cite these problems merely as illustrative of the scope of questions that lie outside the immediate mandate of the statute, but are bound to remain as grist for our common mill. To think of them as questions whose solution can be achieved as Roark Bradford might put it, by merely "r'aring back" and passing a regulation, is not to grasp their content and their complexity, and is to fail to understand the real problem of modern government. So to regard them would be to limit the sphere of government to the prescription of "Thou shalt nots," and thus to return government to its primitive function of police rather than to accept its modern concept of service. To interpret exchange government on your side, and political government on our side, in terms of this modern concept will make less and less necessary the intrusion of its function of police.

Clear, accurate appreciation of the part that an exchange should play in our economy, is not only important from the standpoint of the relationship of government to exchanges, as manifested in the creation of such a machinery of administration as ours, but also of importance in order to permit integration of the various ways in which government affects exchange transactions and exchange machinery. I need not dwell upon the inter-relationship between our banking structure, its policies, and the exchanges. The significance of synchronizing governmental activities as they affect these two aspects of our financial life, is too patent to require discussion. But in other fields, such as that of taxation, the same inter-relation exists. Revenue measures which bear directly on exchange trading should, of course, be based upon an understanding of the exchange mechanisms as well as of the social purposes they are supposed to serve.

The years ahead are thus years of even greater challenge. For as administration tends to form habits of action and as the norms of regulation tend to become the routine of our living, effort can expend itself less upon the creation of machinery and more upon thought as to the direction of our movement. And if we wish to be wise in our action when the time for action becomes ripe, we must be bold in our thinking. Traditional conceptions, traditional ideas, if they be valid, lose none of that validity in being passed through the crucible of thought. And there is zest to thinking, the zest that makes possible true professionalism, - without which government, whether it be yours or ours, tends to routine and mediocrity. These we need fear, but never the consequences of daring to measure the meaning of our institutions in terms of protecting the public that they profess to serve.