Y O U T H W A N T S T O K N O W

presents...

The Honorable Manuel F. Cohen
Chairman, Securities and Exchange Commission

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Theodore Granik's

YOUTH WANTS TO KNOW

Created and Produced by Theodore Granik

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Youth Wants to Know Presents: Manuel F. Cohen, Chairman, Securities and Exchange Commission

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MR. GRANIK: YOUTH WANTS TO KNOW--the penetrating, provocative questions of America's young people, created and produced by Theodore Granik.

Welcome to YOUTH WANTS TO KNOW. Our guest is Manuel F. Cohen, Chairman of the Securities and Exchange Commission. Mr. Cohen is an attorney with a distinguished career in government service. He has received the Rockefeller Public Service Award and the National Civil Service League Award. Regulation of the securities market, the protection of investors, the relationship of business and government, and SEC jurisdiction are some of the subjects about which YOUTH WANTS TO KNOW.

Let's begin our questioning by a panel of Walter Johnson High School students with you, Linda.

QUESTION: Is the individual investor on the securities market becoming extinct?

MR. COHEN: No. As a matter of fact, the number of individuals is growing each year. But a good deal of the activity in the market is now conducted by institutional investors. Institutional investors are mutual funds, banks, insurance companies. But the individual investor usually has an interest in those funds, so if you look behind those things, the number of individuals is increasing tremendously.

QUESTION: Sir, would your ideal world be one in which the difference between insiders and outsiders was ended, and the insider had the equal chance as the outsider?

MR. COHEN: You mean the other way around--the outsider had as good a chance as the insider. I think this would be the most ideal situation. It is probably something that can't be realized in the very nature of things, because not everybody can know about all the details of a business all the time.

QUESTION: Mr. Cohen, according to Treasury Secretary Fowler, the Administration is considering going off the gold standard for our economy. What effect do you think this would have on the securities market?

MR. COHEN: I don't know. That requires some kind of an economic prognostication that goes a little bit beyond my own competence. I'm essentially a policeman and a regulator, not an economic forecaster. Undoubtedly, it would have some effect on the market, but I can't answer your question in any more specific terms than that.

QUESTION: Mr. Cohen, you often express the necessity of regulating highly speculative mutual funds called hedge funds. What has been accomplished along this line ?

MR. COHEN: I don't think I have quite said that. I think I have referred to the fact there's a growing speculation in the securities markets, and that contrary to views held some few years ago, even the professional managers feel that they should become more active in the markets. I do want to say one thing to avoid misunderstanding. Speculation is a term which some people use as a nasty word. Actually it doesn't have to be. Speculation may go on. It may not be against the law. There are other types of speculation which may be unlawful.

MR. GRANIK: Should we prevent speculative activity, Mr. Cohen?

MR. COHEN: Well, there's a serious question in this area, whether it should be prevented and if it should be prevented, by whom? Just recently I had occasion to exchange correspondence with the Chairman of one of the important committees of the Congress, in which I indicated that this is a matter of concern to the Commission. We're watching it closely to be sure there are no improprieties going on, and we've expanded our activities. But going beyond that, it raises some serious questions whether or not the Government should interfere with it, so long as it is not patently unlawful.

QUESTION: Sir, because of the great rise in the number of institutions which now own stock, is it possible that in the future all of the stock will be owned by institutions?

MR. COHEN: Well, some people are concerned about this. And whether or not that is achieved, you are putting your finger on a very important and very sensitive area of change in the securities markets today. The institutions are becoming much more important in the market, and much more important in the lives of the large corporations. And this is beginning to be of concern to many thinking people, people in the government and people in industry. We're all studying it. And for some two years now I've been urging all people who have an interest in this matter to study it a little harder and perhaps to think of some good answers a little sooner.

QUESTION: Mr. Cohen, on the subject of mergers, there seems to be two feelings in New York about this. One, that--what is the present situation of the SEC's investigations on mergers?

MR. COHEN: Well, we're not exactly investigating mergers, Clint. We investigate a merger if there is some basis for feeling that it has been effected or is about to be effected in a manner that is unlawful, that is, by the use of false and misleading statements or the omission of material information. Mergers are investigated by the Department of Justice because of the anti trust laws. We are concerned with it only because there is a growing tendency, a fast growing tendency to concentrate a good deal of industry within the framework of single corporations, which has given rise to the so-called conglomerate corporation. I don't like that word, but that is the word that is used.

QUESTION: Is there a danger in these conglomerates, sir?

MR. COHEN: Well, I don't really know. I think we are concerned at the moment that there isn't enough information available about their various activities, and for some little while now I have been urging the companies, the Certified Public Accountants and other people interested in this subject to begin to set guidelines so that better information would be available to the American investor. There is one point which I think all of you should understand. The Securities and Exchange Commission is a policeman and it is a regulator, but its basic job is not to make decisions for other people in connection with investments. Its basic job is to provide information so that the investors ; you and you and you and your father and mother can reach a decision on your own, or with the assistance of a banker or a lawyer or someone else you trust.

QUESTION: Mr. Cohen, what has the SEC done to simplify

company prospectuses so that the average investor can make effective use of them in his economic decisions?

MR. COHEN: Well, we've been working on this for almost 35 years. And some people think we make no progress whatsoever. And in some areas they are quite correct. The problem is that industry is becoming more complicated. And as it becomes more complicated, it takes a good deal more to explain the business, so you can make an informed decision. In fact, this goes back to the previous question. Some industries are so complicated that a great many people are not able to cope with the information. But they do have a banker, or a lawyer or an accountant or even a teacher, who is competent, a person whom you trust and who can help you make a decision. And I shouldn't exclude the broker. There are very many reputable brokers who can help you in this area.

QUESTION: Mr. Cohen, on the subject of disclosure, your organization accepts financial statements if they are accompanied by favorable opinion by an independent accountant. Why have you done this instead of promoting universal methods of disclosure?

MR. COHEN: Well we don't ask for an opinion which is favorable, and most accountants do not express a point of view. All they say in the certificate is that a financial statement has been prepared in accordance with the proper rules and so on.

MR. GRANIK: What you're really seeking, though, is disclosure, aren't you?

MR. COHEN: Exactly. But I think you've got a good question. We have almost unlimited power to set the rules with respect to disclosure. In this area, the Commission has traditionally felt that it should work with the professions and with the industry to push them when necessary to encourage them at other times to develop the rules, since they have a greater exposure, or at least as great as ours, to all the problems, and we do have a policy further that when they do develop the rules, and we think they are all right, we'll accept them.

QUESTION: But, sir, isn't that unfair to the investment public?

MR. COHEN: No it isn't, because I think we've achieved a form of disclosure in the United States not shared anywhere else in the world, even in those countries from which we borrowed this scheme, England, for example.

QUESTION: Mr. Cohen, the large volumes of capital controlled by investment companies and mutual funds today enable them to manipulate the market to a great extent. Do you think this is fair to the small investor, and does the SEC have any forms or techniques to sanction these organizations?

MR. COHEN: If it is manipulation, we do. But I take it you're using the word manipulation in a non pejorative sense. You mean that because of their power, they can affect the market. This is an activity which we are watching very closely.

QUESTION: What I understand is that they control such large amounts of capital that if a number of them buy collectively in large blocks of stock, they can artificially inflate the price of this stock, and then by selling gain large profits.

MR. COHEN: You are using words, which if true in a particular case, is a violation of law. And I'm not convinced that they're doing this as part of a conspiracy, or an attempt to manipulate in the sense you use it. It is a fact, however, that these professional managers who went to the same schools and who read the same books and who look over each other's shoulders, do have a tendency to act in concert or nearly in concert, so that their activities can raise or lower the price, depending upon their particular activities. Now this, of course, does mean that at particular times, investors who are acting on their own may be caught between these forces. We are watching this very carefully, and it is an aspect of the studies we are making generally with respect to speculative activities.

QUESTION: Mr. Cohen, going back to what you were saying before, why isn't it possible for the SEC to prepare a magazine comparable to Consumer's Guide to aid the investor?

MR. COHEN: Well, we have a little magazine, I'm glad you asked. It is called "The Work of the Securities and Exchange Commission." It doesn't have a guide to advise you about the techniques of analyzing securities and determining what to buy, because if we got into that activity, no matter how careful we would be, we might be in the posture of saying things which would suggest one or another security being better, and that is not our job. But we do have something we call a "Warning to Investors," and I'll be glad to read it to you later.

QUESTION: What would you do if you were a beginning person in the stock market and you wanted to buy stock? Where could you go for information on exactly what procedure you had to follow?

MR. COHEN: Well, I would find a reputable broker, and there are a great many of them. I would listen carefully to what he said. If he makes recommendations I would ask him to write it down, and then I would keep the

paper.

QUESTION: But the SEC has nothing to do with this at all?

MR. COHEN: No. We are not authorized to advise people with respect to the purchase or sale of securities, nor do we pass upon the merit of securities. In fact, it is a criminal offense to suggest otherwise.

QUESTION: Mr. Cohen, have the computers caused a drastic change in the stockmarket?

MR. COHEN: I don't know. But computers are being used very widely now by people who are in the business of advising others. There are various types of investment advice, based on various techniques. Some people follow just the market action. They are not much concerned with what are called the fundamentals of a company, that is, what its history has been, what its position is now, and where they think it will go. They're interested in the market, so they use the computers for that purpose. However, computers are also being used for this other purpose. For example, I know that some firms have information which they tape regularly so that any salesman in any one of their offices throughout the world can push a button and in a minute or two he gets a little summary about a particular company. Now these things are moving forward. Unfortunately, the advantages of automation are not being used as widely as I hope they will be.

MR. GRANIK: Can we look for an automated broker then?

MR. COHEN: Well, I'm not sure we'll get to that, because a machine can't think and it is only as good as the person who programs the machine. So we do get back to human judgment.

QUESTION: Mr. Cohen, in your estimation, what does the Dow-Jones average mean today, and can it be used as an effective trend indicator for our highly fluctuating market?

MR. COHEN: Well, that's another good question, and one that is being debated very widely. There are many people who feel that the Dow-Jones Average perhaps is not as useful as some of the other averages. The Dow-Jones Average is an average made up of a limited number of securities. There are other averages. The New York Stock Exchange has an average which covers all the securities listed on that exchange. Standard and Poor have a number of averages. One of their averages covers 500 stocks. All of these averages are used by people who are studying the market, and sometimes you may notice that the Dow Jones moves one way and some of the other averages move in a slightly different way. But over the long run, so far as I know, most of these

averages generally move in the same direction.

QUESTION: Mr. Cohen, will the SEC act in any way on the recent suggestion of the American Institute of CPA's?

MR. COHEN: They've made quite a few, including some we've suggested that they make. You'll have to be more specific.

QUESTION: In relation to.....

MR. GRANIK: Remember the Chairman has been there many years and he knows the SEC.

QUESTION: The company's reports so that they can be compared, one company to another.

MR. COHEN: This has been one of the things about which I've been making speeches for quite awhile. And I must say the American Institute of Certified Public Accountants is moving, and moving very expeditiously, in this area. I think they're making real progress, and I think in the coming months they'll make a great deal more.

QUESTION: Can the SEC do anything about it, though?

MR. COHEN: Yes. If they don't move as rapidly as we'd like, or they come up with the wrong answers, we can write our own rules. And our rules control.

QUESTION: Which would you prefer?

MR. COHEN: I would prefer to have them continue to draw up the standards, with the residual power which now exists in the SEC, to write our own rules if we are unhappy with the ones they develop.

QUESTION: Mr. Cohen, do you advocate a change in the rules of the various exchanges governing brokers, which permit the practice of give up or give away by the Commission when they deal in large volumes for the various investment companies?

MR. COHEN: Yes we do. The give up and give away is a very complicated subject. I'll try to simplify it. It relates to the situation which arises when large transactions are executed by a broker, but because of the size of the transaction, the broker is willing to give up a portion of his commission. Now the New York Stock Exchange has a number of rules, but despite

all of its rules it permits a portion of that commission to be given to another member of the Stock Exchange, and that's usually directed by the professional manager, typically in the mutual fund, to a broker who may be contemplating on selling the fund shares which he manages. We have recommended doing away with it because it complicates the structure, it doesn't result in a savings to the investor. We believe there should be a volume discount, so that the benefits would flow back to the investor, who is really the person that really owns the institutional investment.

QUESTION: Mr. Cohen, what do you think the odds are against a major depression, let's say, in the next 15 years? And what has the SEC done in the past 15 years to reduce these?

MR. COHEN: I told you, that's not my business to prognosticate in the market. But I can say that a great many people who are very competent, and very knowledgeable in this area have suggested that because of a number of things, and the SEC is not necessarily the most important, it's less likely that we would run into a situation such as occurred in this country in 1929. Now I happen to believe that personally, but this is not a prediction.

QUESTION: Mr. Cohen, some people feel that the SEC has stepped up its authority in the past few years. Is this because of a change in Wall Street ethics?

MR. COHEN: This is because they have a Chairman at the SEC who is very active, in part. No, seriously, we have a great deal of increased activity in the securities market, and when that happens, it's like a honeypot. It draws a lot of bees to the pot. We have to move in to be sure that things are being carried out properly. And, in any event, this is a very dynamic industry and things are changing all the time. And to be proper governing, we have to know about it, we have to follow it up, and suggest changes in the rules when that seems appropriate.

QUESTION: Do you feel that the ethics on Wall Street are changing?

MR. COHEN: The ethics on Wall Street have changed. They've improved a great deal. I think there's still a little room for further improvement.

QUESTION: Mr. Cohen, could you tell me to what extent the Federal Reserve Board and the Securities and Exchange Commission cooperate to regulate trends in our economy?

MR. COHEN: Well, we don't cooperate with the Federal Reserve Board, nor do they with us except in one limited area, and that relates to margin transactions. Under the statute, the Federal Reserve Board fixes the margin requirements. You know what margin requirements are. When you want to buy securities and you don't want to pay in full, under the rules as specified by the Federal Reserve Board, you can pay today, for example, only 70% of the value, and the broker can lend you 30%. The Federal Reserve Board can change that to 100% or down to 10%, and it has in the past. Now they set the rules but we have to enforce them. And we do work together. But, I don't want to overrotate the situation. We exchange a great deal of information. They want information that we gather, and we want a lot of information that they gather.

QUESTION: In reference to this, why is it that the railroad securities do not come under the regulations of SEC?

MR. COHEN: That's a Congressional decision. There is a provision in the Interstate Commerce Act which vests in the Interstate Commerce Commission authority to deal with railroad securities. The fact of the matter is, if you look at a prospectus in connection with railroad securities, it looks pretty much like a prospectus for ordinary industrial securities. But that's a statutory decision, or I should say a Congressional decision, reflected in the statutes.

QUESTION: Mr. Cohen, it has been said that the performance funds have the same effect as the outlawed pools of the 20's. If this is so, why haven't they been outlawed also?

MR. COHEN: Well, there has been talk of this nature, and it is a hotly contested and debated issue. The fact of the matter goes back to one of the earlier questions, we're looking at this very very closely, and whether or not it is a pool operation of the kind that occurred in 1920's when they engaged in activities which today would be contrary to law, these activities by their sheer size do necessarily affect the market. But the question arises whether the government should interfere with that. We are theoretically now in a context of a free market, and once you begin to fool with that, you're raising issues of whether the market should be free or whether the government should step in, and decide what is best. This is a tough thing to do.

QUESTION: Mr. Cohen, on the subject of the Vietnam war, if a sudden reconciliation was reached, would the stock market have to temporarily close?

MR. COHEN: I don't think so.

QUESTION: Well this happened during President Kennedy's assassination.

MR. COHEN: It did. The stock market closed in the afternoon. You remember the news about his assassination wasn't confirmed until around 2 o'clock. So they closed for the balance of the afternoon. They closed the following business day, really not because they were concerned about the market, but in honor and in concern and sorrow for the loss of our President.

QUESTION: Mr. Cohen, could you give us an idea of what would happen on the stock market if President Johnson's suit closes in Congress?

MR. COHEN: No I couldn't. I don't know.

QUESTION: What overall affects have the recent riots had on the stock market.....

MR. COHEN: If I may interrupt, I don't think he is going to lose.

QUESTION: There seems to be a 50-50 chance in Congress.

MR. COHEN: There is a debate and there should be a debate on matters of this importance, but I think there will be the tax. That's my personal feeling, you understand.

QUESTION: Have the recent riots affected the stock market, and has this affected SEC control?

MR. GRANIK: You must be very patient. The Chairman is very patient with a lot of big companies, and you must be patient with him.

MR. COHEN: I can answer the question only in this sense. For example, during the Detroit riots, obviously the situation there resulted in the whole city being upset, and Detroit is an area where there is considerable industry. And necessarily this affected those companies. And obviously people get nervous about these things and it affects the price of the securities. Now whether it had an affect on the overall market is not quite as clear. But if the riots would be more continuous and more widespread than they have been, and I think they've been too widespread already, unfortunately, it might have a more serious affect. At the moment I don't anticipate anything of that kind.

QUESTION: Mr. Cohen, has the U.S. Congress been a help or a hindrance to your work on the SEC?

MR. COHEN: A great help.

MR. GRANIK: That's a tough one.

MR. COHEN: There's nothing tough about it. The United States Congress, I want to repeat it, has been a great help.

QUESTION: Mr. Cohen, could you please explain why there is such limited speculation in preferred stocks versus common stocks?

MR. COHEN: Well, there's been less speculation, for one thing, there aren't quite as many preferred stocks as there are common stocks. And preferred stocks are different types of securities. Preferred stocks have a limited interest in the company as compared to the common stocks. But if you have a convertible preferred stock, you'll find that there is considerable volatility in those securities because those securities can be changed into common stocks at any moment.

QUESTION: Is there any difference in the restrictions imposed by SEC on over the counter stocks versus those listed on the New York Exchange?

MR. COHEN: No, in a very general sense, no. Most large over the counter stocks must file information with the Commission roughly comparable to that required of a listed company. But not all companies trading in the over the counter market are subject to these requirements, only the larger ones.

QUESTION: Sir, don't you feel that the SEC has already violated the principle in American business of free enterprise?

MR. COHEN: The SEC has violated it? No sir. In fact, the SEC is probably one of the most conservative institutions in the world. It's one of my cliches to refer to it as one of the greatest bastions of capitalism, and I might explain that for a minute, because the only thing the SEC wants to do is to be sure that the market is free, open and honest, because without it, I think that all the things we've been talking about would create trouble.

QUESTION: What do you think that over-speculation is?

MR. COHEN: I didn't hear the beginning of that question. I'm sorry.

QUESTION: What do you think the limit--where the line would be drawn for someone who over-speculates?

MR. COHEN: I really don't know. And there may be different questions in terms of individuals, of institutions and types of institutions.

QUESTION: Mr. Cohen, is the American economy and the stock market situation growing and do we depend upon the defense spending?

MR. COHEN: The answer to the first part of your question is yes. And, of course, defense spending does introduce into the general economy many many dollars, all of which goes to help this growth.

QUESTION: Mr. Cohen, the term arbitrage is used in reference to a technique of taking advantage of price differences on foreign markets, why do these differences exist and is there any cooperation, for instance, between the New York and London markets?

MR. COHEN: Well, arbitrage may occur among and between markets within the United States. It is not limited to foreign markets. It arises because for one reason or another the price of a particular security may vary a little in one market than in another. These arbitrageurs, and I've seen them operate in New York, London, Paris and Geneva, where I lived for quite awhile, are probably people with the sharpest pencils in the world. They're very smart, and they have two or three telephones going at the same time. And they'll buy and sell in one market and the other for a very small difference in price. But if you deal in substantial transactions, it proves to be profitable. Sometimes they lose, too.

QUESTION: Mr. Cohen, what means do you have for controlling tips and rumors and the spreading of them?

MR. COHEN: This is a troublesome thing. You can't prevent people from talking about it. If the activity is fraudulent or if it is done by somebody in the business in order to affect the price of a stock, manipulate it, in other words, we have a lot of authority. We've put a lot of people in jail. We've got a few more that we're going to put in jail pretty soon. But this has been going on almost since time immemorial.

QUESTION: This is going on so much on the American Stock Exchange. Is there any danger in this?

MR. COHEN: Of course there is.

QUESTION: They seem to be making money, though.

MR. COHEN: That's part of the "Warning to Investors," which I'll read to you as soon as we have time.

MR. GRANIK: I'm sorry to interrupt. I know there are many more questions. There just isn't time. Thank you, Chairman Cohen.

MR. COHEN: Incidentally, if anybody does want the work of the Commission, including this warning, just drop us a postcard.

MR. GRANIK: Thank you panel for your most interesting questions, and to you ladies and gentlemen for being with us. Please join us again next week on YOUTH WANTS TO KNOW, where through the eyes of youth, we explore, we discover, we measure the important people, ideas and events of our time. Now this is Theodore Granik bidding you goodbye.

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