

SECURITIES AND EXCHANGE COMMISSION
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(Speech begins 1:00 p.m. in Boston)

Joseph P. Kennedy, Chairman of the Securities and Exchange Commission, spoke at a special luncheon meeting of the Boston Chamber of Commerce over the National and Columbia broadcasting networks today (yesterday). The speaker devoted the major part of his thirty-minute address to the question of security issues which he found now to be "a road without difficulties, except those made by unnecessary timidity", adding that the danger as he saw it is: "Not that we will interfere too often, but that we will act too late."

One of the most striking thoughts the Chairman employed was:

"I prefer to let our record speak. That record is in the making. It is far from completion, but it is far enough along to show clearly one thing: There is no Right or Left in the processes of the Securities and Exchange Commission; all we are trying to do is to go forward."

Accepting as true the statement that the security business is "the most important branch of business in the country from the standpoint of direct and indirect influence * * * * upon the welfare of our population," Mr. Kennedy stressed the point that the business can be kept clean far more effectively by cooperation from within than by force from without. He made it plain that the attitude of the SEC is to urge, look for and lead this cooperation; that he and his associates did not regard themselves as prosecutors of honest business, but as its protectors. Sixteen million security holders who were brought into being by governmental activity in the Liberty Loan campaigns had a definite right, he asserted, to be protected from improper financial practices.

The Chairman showed the change from the old days of the closed corporations when only a few hundred thousand people owned securities, to the existing situation wherein one person in every ten and one family in every three has a direct stake in the nation's business corporations. He said a recent study of seventy-five important American business corporations revealed the fact that 86.8% of all the stockholders are small stockholders, owning less than one hundred shares each.

President Roosevelt had given the reason for the Securities Act, the speaker said, in the following words:

"If the country is to flourish, capital must be invested in enterprise, but those who seek to draw upon other people's money must be wholly candid regarding the facts on which investors' judgment is asked."

The government, Mr. Kennedy said, is not put into business by the Securities Act as a judge of values; it does not advise; it does not approve. Nor is registration, he pointed out, to be regarded as a trade-mark of safety. It is evidence that there is a record in Washington of the important facts which should guide judgment in investments. These facts are usually reliable

guides upon which the value of a security may be judged, and by which the investor may decide, with prudence, whether or not he shall entrust his money to such an enterprise.

Mr. Kennedy revealed the fact that in the year ending November 30, 1933, almost \$205,000,000 in par value of securities were denied sale privileges in Massachusetts. In the ten years of the Security Act's existence in that State almost \$2,750,000,000 of questionable securities had been similarly prohibited. The elimination of the corrupt, the speaker said, made for the strengthening of the sound. "Have no fear that government supervision will destroy honest enterprise", he urged, and pointed out that fear had been present at the creation of the Interstate Commerce Commission, although later the period of greatest railroad prosperity occurred; at the creation of the Federal Reserve Board, under which banking reached its greatest expansion, adding that: "our recent banking troubles resulted from too much individual banking initiative." He closed this passage by pointing out that the great life insurance companies now are thankful for the supervisory laws they once fought so hard.

The Chairman reiterated what he had previously said, that "if business does the right thing it will be protected and given a chance to live, make profits and grow, helping itself and helping the country". "Honest business," he went on, "needs nothing more; the Commission promises nothing less."

Mr. Kennedy said there were four main charges made against the Securities Act:

First, liabilities are imposed upon directors and corporate officers with unwarranted severity; second, that registration entails excessive and burdensome expense; third, that unnecessary, difficult and irrelevant information is required; fourth, unnecessary delays between the first corporate action and final clearance of the Commission. He answered them thus:

First, The Securities Act is much like the English law on the point of liability which arises when the registration statement contains "an untrue statement of a material fact or omits to state a material fact required to be stated therein, or necessary to make the statements therein not misleading."

"Directors, officers, underwriters and experts may avoid liability," the Chairman said, "if they can sustain the burden of proof that they exercised the standard of care and investigation of reasonable persons under the circumstances. In a word, negligence and dishonesty are penalized, as is true," he pointed out, "in every walk of life."

Concerning the second charge, the Chairman said:

"The total items of expense which, by any stretch of the imagination are chargeable to new legislation amount to 38/100 of 1% of the gross proceeds of the finances involved, and there can be no doubt that an appreciable part of legal expenses and accounting expenses which are included in these costs would have had to be incurred even if there were no Securities and Exchange Commission and no registration." The Chairman pointed out further that the costs are slightly less than the costs prevailing prior to the Securities Act.

Concerning the third objection regarding the burdensome questionnaires, Mr. Kennedy said that new and briefer forms are in preparation, more suitable for the purposes involved. He admitted that in some instances the forms of the questionnaires had been imperfect, and then made this statement:

"One of the most prominent lawyers in the field of corporate finance has stated categorically that when the few proposed amendments to forms and rules have been adopted, there will be nothing in the way of inconvenience or expense which should deter the American businessman from seeking new capital in accordance with the requirements of the Act." Finally, referring to the criticism about the delay, the speaker said it had been grossly exaggerated and added that speed in itself is not a virtue, and that deplorable losses had frequently followed ill-considered and hasty conception, preparation and execution.

Another point the speaker made was the following:

"Since the Securities Act became a law the total of new capital issues in the United States (excluding Federal financing) has actually increased. For instance, - during the first nine months of 1934 capital issues were twice as large as for the same period of 1933.

"There has been no new security legislation in Great Britain and yet the British figures show that new capital issues during the first nine months of 1934 were practically no larger than a year earlier, and totaled only one-half the dollar value of new financing in the United States of the same period.

It was the hope of the Commission, the speaker said, "that the initials S-E-C will come to stand for Securities Ex-Crookedness".

Mr. Kennedy concluded his speech in this way:

"We are seeking to recreate, rebuild, restore confidence. Confidence is an outgrowth of character. We believe that character exists strongly in the financial world; so we do not have to compel virtue; we seek to prevent vice. Our whole formula is to bar wrong-doers from operating under the aegis of those who feel a sense of ethical responsibility. We are eager to see finance as self-contained as it deserves to be, when ruled by Honor and Responsibility. Success is not the success of one; it is the success of all. No man can live off the pack without being lived off of by the pack.

"The groundwork of our social and economic system is the latitude of Reason; not the restriction of Fear. It provides for free activity within limits that should be self-imposed. When abuses occur, checks and corrections arise. But the application of these processes is not the dead hand that some proclaim it to be. Instead, it is the assurance of Life and Strength, when Honesty and Intelligence are present. We have been brought into being to help you as part of the public which erects government for its service. But you best can help yourselves. You can make the investing of money honest. Then you will truly become your brothers' keeper. And to do that is to acquire merit."

Full text of speech is attached.