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ADDRESS

of

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*Chairman, Securities and Exchange Commission*

at a Dinner given by the

SOCIETY FOR THE ADVANCEMENT OF MANAGEMENT

for the delegates of the

INTERNATIONAL MANAGEMENT CONGRESS

HOTEL WASHINGTON

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In its aims and ideals the Securities and Exchange Commission has much in common with responsible and conservative business management. What we both seek, above all else, is a careful conservative stewardship of the interests of investors. Your responsibility, as corporate managers, is to your own stockholders and bondholders. Our duty, as public servants, is to American investors as a group.

The contact which the SEC has with management comes, as most of you know, from the financial aspects of business. Those of you who have brought out securities issues in recent years have come into contact with us through the Securities Act of 1933. This statute, probably the simplest we administer, requires that those who seek to sell their securities to the public must make a full and fair disclosure of their business history, their financial condition, the purposes for which the funds are to be used and the rights of the various classes of security holders. The theory of the Act is not to control the raising of capital through the sale of securities but simply that capital cannot be raised without full disclosure of all the facts when you are asking for other people's money. We do not pass on the merits of securities to be offered; that is left to the investor. All we ask for the investor is the facts. Those of you who have securities listed on stock exchanges have come to know us through the Securities Exchange Act of 1934. That law calls for a similar statement as to the company, its business and its financial condition for all so-called listed companies; it also calls for annual reports keeping that information up to date. In addition, the Securities Exchange Act operates to prevent pools and manipulations in the securities of your companies. It sets up standards for providing certain minimum information in the solicitation of proxies. Equally important, it recognizes that officers, directors and dominant stockholders are fiduciaries and should not trade on inside information; and accordingly it penalizes certain purchases and sales. Those of you who operate public utility companies, if

your companies are members of holding company systems, may have done business with us through the Public Utility Holding Company Act of 1935 when you have issued securities, bought or sold securities or properties, solicited proxies, or made adjustments in your accounting methods or your financial structure. Under this law, we are required to give approval or disapproval to many holding company activities. Here there is an element of supervision over the acts of management which does not characterize the other laws e.g. a limitation by the Act of the geographical area embraced by any one holding company system; protection of investors against payment of dividends out of capital; limitations on the presence of bankers on the boards of directors; and the like. Finally, from now on, if any of you have the misfortune to go into bankruptcy for purpose of being reorganized, you will find the SEC serving in an advisory capacity to the courts and rendering them technical assistance in the analysis of plans of reorganization under Chapter X of the new Federal Bankruptcy Act.

These tasks of ours are varied. But whatever they are – whether they be insistence on disclosure of the truth, prosecution of manipulators, simplification of holding company structures – they constitute various types of patrol of finance for the purpose of prevention of excessive practices. They are in tune with the standards of conservative management for they reflect the simple fundamentals which should govern the relationship of a manager to an owner.

Responsible management has always recognized its position as the servant of the stockholders. Yet the blight of capitalism has been a specious brand of morality for corporations, a morality which drew a distinction between the allegiance which the management demanded of its staff and the allegiance which management owed to its stockholders. You know and I know that there can be no such distinction. You and I know that once capitalism forsakes the standards of trusteeship, it bids fair to destroy itself. It is the job of the SEC to eradicate that

specious brand of morality and to restore old fashioned standards which place business above suspicion or reproach for questionable financial practices.

The efforts of the SEC to buttress our corporate standards of trusteeship obviously serve the interest of all responsible management. For misrepresentation is unfair competition, whether it is used to attract capital or to solicit new business. But misrepresentation in bidding for capital, or in any dealings with security holders, is more than unfair competition. It is a direct undermining of that free economic system which is necessary for the preservation and perpetuation of capitalism under a democratic form of government. That is why, when a company enters the capital market for funds with which to carry on or expand its business, it is important that it has told the truth about its affairs as completely and truthfully as the high minded competitor who bid for capital last week. And when a company solicits proxies for its annual meeting of stockholders, or for some special project, it is important that investors feel that they have a solid basis of facts for an informed judgment. When your securities are listed on stock exchanges, it is important that no one make a fool of them. The country has learned that a manipulated security is a poor rather than a good advertisement for a company seeking additional capital as well as a curse to investors. Business at last knows that it does not pay to become a stooge for market traders since it knows that no conscientious management can divide its loyalty between its bankers and its stockholders. When finance becomes the master rather than the servant of business, a process of disintegration sets in.

There are those who would have it appear that the cost of living up to the requirements of our new securities regulation constitutes a restrictive burden on financing. That charge I feel perfectly confident in denying. We ourselves have been careful to guard against costs which might be burdensome or restrictive. I cannot at this time give you the details of our cost studies,

but I do say that they satisfy the Commission that no real restrictive influences are present.

Whatever costs there are, they represent only the pains which conscientious management has always taken in all of its activities. Obviously they are a restrictive influence on irresponsible management. For that, we may all well be grateful.

We know that at least conservative managements feel the same way about these things as we do. And we know that some other kinds of management do not. Fortunately, we do not have to try to please everybody. And we will never try to please those who want to forsake the path of genuine conservatism for the quick but costly profits of corner cutting.

Service to stockholders cannot be a passive thing. It is not something to be rendered with the lips. It calls for constant diligence and tireless devotion to the standards of fiduciary responsibility upon which our capitalistic system is based. It is not enough to make an honest and revealing annual report. Management must, in every act, inspire the confidence of investors whose funds are its life-blood. For, if the American public has a large stake in the country's corporate business, so American corporations have their stake in the public confidence. It is in that respect that this part of the President's program has its greatest significance to those who believe in capitalism and democracy.

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