

# NEWS

## SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

(202) 272-2650



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### THE STATE OF THE SECURITIES AND EXCHANGE COMMISSION -- 1980

An Address by Harold M. Williams, Chairman  
Securities and Exchange Commission

The SEC Speaks in 1980  
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NOTE: This is the final draft of Chairman Williams' remarks. Although this draft may be quoted, the Chairman might have made minor revisions during his oral presentation. These alterations, if any, will be reflected in the printed text of the speech which will be available from the Commission's publications unit in the near future.

TODAY MARKS THE THIRD TIME THAT I HAVE ADDRESSED SEC  
SPEAKS AS CHAIRMAN OF THE COMMISSION. I BELIEVE THAT THIS  
YEAR'S EDITION OF THIS FORUM PROVIDES A PARTICULARLY FITTING  
OPPORTUNITY TO STEP BACK AND TAKE A LONG VIEW OF THE  
COMMISSION AND ITS WORK. I SAY THIS FOR A NUMBER OF REASONS.  
FIRST, ECONOMICALLY SPEAKING, AS WE ENTER THE NEW DECADE, WE  
ARE EXPERIENCING A PERIOD OF UNPRECEDENTED CHANGE IN THE  
FINANCIAL MARKETS AND COMMUNITY. FURTHER, POLITICALLY  
SPEAKING, THIS NATION IS IN AN ERA WHEN TRADITIONAL  
ASSUMPTIONS ABOUT THE PROPRIETY, COSTS, AND EFFECTIVENESS OF  
GOVERNMENTAL REGULATION ARE SUBJECT TO INCREASING QUESTION.  
MOREOVER, FROM AN INSTITUTIONAL STANDPOINT, THIS NEW DECADE  
WILL WITNESS THE FIFTIETH ANNIVERSARY OF THE SEC'S FOUNDING  
-- A BENCHMARK THAT SHOULD PROVIDE THE IMPETUS FOR SOME SERIOUS

INSTITUTIONAL INTROSPECTION AND SELF-ANALYSIS. FINALLY, PERSONALLY SPEAKING, MY OWN CHAIRMANSHIP OF THE COMMISSION HAS NOW PASSED ITS HALF-WAY POINT, WHICH PRECIPITATES A SIMILAR PERIOD OF EVALUATION FOR ME. I WOULD LIKE TO TAKE SOME TIME TODAY TO AMPLIFY UPON THESE THOUGHTS.

FIRST, OVER THE LAST FOUR OR FIVE YEARS, SIGNIFICANT ECONOMIC CHANGES HAVE BEEN OCCURRING IN THE STREET. THESE CHANGES ARE CHARACTERIZED BY GREATLY EXPANDED MARKET ACTIVITY, THE INCREASING COMPLEXITY OF FINANCIAL TRANSACTIONS, THE DEVELOPMENT OF A NEW MIX OF FINANCIAL PRODUCTS BEING OFFERED TO THE PUBLIC, AND THE INCREASINGLY HIGH FINANCIAL LEVERAGE OF THE BROKER-DEALER INDUSTRY. LET ME NOTE A FEW REPRESENTATIVE ILLUSTRATIONS FOR YOUR CONSIDERATION. SINCE 1975, THE NUMBER OF OPTIONS CONTRACTS ON SECURITIES ANNUALLY TRADED INCREASED 250 PERCENT. DURING

THIS SAME PERIOD, THERE WERE APPROXIMATELY \$100 BILLION WORTH OF SUCCESSFUL TENDER OFFERS. ADDITIONALLY, DURING THIS TIME, THE NUMBER OF BROKER-DEALERS REGISTERED WITH THE COMMISSION INCREASED OVER 70 PERCENT AND THE NUMBER OF REGISTERED INVESTMENT ADVISERS INCREASED BY APPROXIMATELY HALF. IN THE LAST YEAR ALONE, THE ASSETS OF MONEY MARKET FUNDS INCREASED ALMOST FIVE-FOLD. AND, THE JANUARY 1980 VOLUME IN NEW YORK STOCK EXCHANGE-LISTED, AMEX-LISTED, AND OVER-THE-COUNTER TRADED SECURITIES TOTALED 2.165<sup>1</sup> BILLION SHARES. JUST A YEAR EARLIER, THE JANUARY FIGURE WAS LESS THAN ONE-HALF THAT AMOUNT; TWO YEARS EARLIER, IT WAS ONLY ONE-THIRD THAT AMOUNT -- AND THIS GROWTH WAS ACHIEVED IN A PERIOD WHEN LEADING FINANCIAL PUBLICATIONS WERE HERALDING THE "DEATH OF EQUITIES" IN BOLD HEADLINES.

WHAT DO SUCH STATISTICS MEAN TO THE FINANCIAL COMMUNITY? DO THEY FORETELL GOOD NEWS OR BAD? [IN MY OPINION, PERIODS OF

UNUSUAL ECONOMIC ACTIVITY REPRESENT BOTH OPPORTUNITY AND RISK -- OPPORTUNITY FOR THOSE HAVING FORESIGHT AND CREATIVITY, BUT RISK FOR THE SHORT-SIGHTED. FOR EXAMPLE, WHEN EQUITY INVESTMENTS FELL INTO DISFAVOR EARLIER IN THE LAST DECADE, THE MUTUAL FUND INDUSTRY, WHICH HISTORICALLY HAD BEEN STRONGLY TIED TO EQUITIES, BEGAN EXPERIENCING A CONDITION OF NET REDEMPTIONS WHICH SEEMED TO THREATEN ITS VERY VIABILITY. BUT, THE MUTUAL FUND INDUSTRY RESPONDED INNOVATIVELY BY ESTABLISHING MONEY MARKET FUNDS, A NEW PRODUCT WHICH HAS ENJOYED WIDESPREAD PUBLIC ACCEPTANCE. SIMILARLY, GROWTH IN EQUITIES VOLUME OFFER PROFIT OPPORTUNITIES. FOR EXAMPLE, IN ADDITION TO VOLUME PER SE, THERE ARE INDICATIONS THAT INDIVIDUAL INVESTORS MAY BE STARTING TO COME BACK TO THE EQUITIES MARKET. IN THE FIRST HALF OF FEBRUARY, THE NEW YORK STOCK EXCHANGE REPORTED THAT TRADES IN THE

100 TO 900 SHARE RANGE -- WHICH ARE TOO SMALL TO NORMALLY ORIGINATE FROM THE LARGE INSTITUTIONS -- WERE UP 79 PERCENT OVER THE SAME PERIOD LAST YEAR.

ON THE OTHER HAND, THESE STATISTICS ALSO REPRESENT A CRITICAL CHALLENGE. THE FINANCIAL COMMUNITY, AT THE BOTTOM LINE, IS SERVICE ORIENTED. UNLESS THE INDUSTRY IS PREPARED FOR SUCH AN OCCURRENCE, UNUSUAL SHORT-TERM INCREASES IN BUSINESS ACTIVITIES CAN RESULT IN SERIOUS PROBLEMS IN ADEQUATELY DELIVERING SUCH SERVICES. AND, FRUSTRATING BACK OFFICE PROBLEMS -- SUCH AS NONDELIVERY OF STOCK OR PROCEEDS OF A SALE -- WOULD LIKELY RESULT IN MANY INDIVIDUAL INVESTORS' STAYING AWAY FROM THE MARKET IN THE FUTURE. THEREFORE, THE FINANCIAL COMMUNITY CANNOT

AFFORD TO BE SHORT-SIGHTED AND UNPREPARED FOR THE POSSIBILITY OF GREATLY INCREASED MARKET ACTIVITY. LAST NOVEMBER, I URGED THAT THE INDUSTRY BE PREPARED TO HANDLE VOLUME LEVELS EQUIVALENT TO 150 MILLION SHARE-DAYS ON THE NEW YORK STOCK EXCHANGE. MORE RECENT VOLUME TRENDS HAVE ONLY CONFIRMED THE IMPORTANCE OF THE INDUSTRY'S HAVING SUCH A CAPABILITY IN THE VERY NEAR TERM. THE LESSONS OF THE 1960s -- A PERIOD OF HIGH VOLUME, OR WHAT WAS THEN THOUGHT TO BE HIGH VOLUME -- SHOULD NOT BE FORGOTTEN.

THIS BRINGS ME BACK TO THE SECOND POINT THAT I RAISED AT THE OUTSET OF THIS TALK: THIS NATION HAS ENTERED AN ERA WHEN THE PROPRIETY OF GOVERNMENTAL REGULATION AS THE SOLUTION

TO PERCEIVED PUBLIC ILLS HAS COME UNDER INCREASING CHALLENGE. AS MANY OF YOU ARE AWARE, MUCH OF MY PROFESSIONAL LIFE HAS BEEN SPENT IN CORPORATE MANAGEMENT. I KNOW FIRSTHAND THE FRUSTRATIONS OF POORLY DRAFTED OR ADMINISTERED REGULATIONS. BUT, I DO NOT SUBSCRIBE TO THE SIMPLISTIC APPROACH THAT ALL REGULATION IS NECESSARILY COUNTERPRODUCTIVE OR WASTEFUL. FOR EXAMPLE, I BELIEVE THAT THE FEDERAL SECURITIES LAWS HAVE, ON THE WHOLE, PERFORMED ADEQUATELY AND EFFICIENTLY.

THE UNITED STATES REMAINS UNIQUE AMONG NATIONS IN THE BREADTH OF ITS PUBLIC'S PARTICIPATION IN THE SECURITIES MARKETPLACE -- BOTH DIRECTLY AND INDIRECTLY, THROUGH SUCH MEDIA AS PENSION PLANS AND INVESTMENT COMPANIES. THIS BROAD SOURCE OF CAPITAL HAS PROVIDED COMPANIES WITH THE RESOURCES TO INNOVATE, DEVELOP NEW PRODUCTS, BUILD CAPACITY, IMPROVE PRODUCTIVITY, AND CREATE JOBS. AND, UNDER THE AMERICAN SYSTEM, SUCH CAPITAL IS RAISED IN A MANNER WHICH

DOES NOT INTRUDE UPON PRIVATE SECTOR CREATIVITY. RATHER, EACH COMPANY'S ABILITY TO ATTRACT CAPITAL DEPENDS UPON THE INVESTING PUBLIC'S PERCEPTION OF THE COMPANY'S INDIVIDUAL POTENTIAL AS A SUCCESSFUL ECONOMIC ENTERPRISE -- A RESOURCE ALLOCATION DECISION MADE INDEPENDENTLY OF ANY DIRECT GOVERNMENTAL PARTICIPATION. SUCH INDEPENDENCE FROM THE CONFORMING PRESSURES INHERENT IN GOVERNMENTAL DECISION-MAKING MEANS THAT THE BUSINESS SECTOR MAY RESPOND TO THE CHALLENGES WHICH IT FACES WITH THE ECONOMIC PLURALISM THAT MAY BE THE MOST IMPORTANT CHARACTER OF OUR FREE ENTERPRISE SECTOR.

YET, WHILE THE BASIC PRECEPTS OF THE COMMISSION'S IMPORTANT STATUTES REMAIN VALID, THERE ARE TWO CAVEATS WHICH WE CANNOT IGNORE. FIRST, THE FACT THAT THE COMMISSION'S OPERATIONS ARE GENERALLY WELL-REGARDED SHOULD NOT TEMPT US TO SEEK TO EXPAND OUR REGULATORY FRAMEWORK

MERELY TO SATISFY SOME ADMINISTRATIVE MANIFEST DESTINY.

YET, ON THE OTHER HAND, THE COMMISSION MUST NOT VIEW ITS PAST PERFORMANCE AS A REGULATORY AGENCY AS AN EXCUSE TO AVOID

THE SELF-EVALUATION NECESSARY TO MAINTAIN ITS FUTURE

CREDIBILITY. WE MUST RECOGNIZE THAT BOTH COMMERCE AND

THE LAW EXPERIENCE CONTINUAL DEVELOPMENT AND CHANGE.

ACCORDINGLY, THE COMMISSION HAS AN OBLIGATION TO CONTINUOUSLY MONITOR ITS OWN OPERATIONS TO ENSURE THAT THE FEDERAL

SECURITIES LAWS ARE BEING ADMINISTERED IN THE MOST ADAPTIVE AND RELEVANT WAY UNDER THEN-CONTEMPORARY CONDITIONS.

INDEED, AN INCREASED SENSITIVITY AND FLEXIBILITY, IN MY JUDGMENT, REPRESENTS THE ESSENTIAL OBJECTIVES OF THE CURRENT POLITICAL MOVEMENT FOR REGULATORY REFORM. PARTICULARLY IN THE BUSINESS COMMUNITY, THERE HAS BEEN A STRONG REACTION AGAINST REGULATORY SYSTEMS WHICH ARE PERCEIVED -- OFTEN ACCURATELY SO -- AS PRESUMING THAT ALL PERSONS

REGULATED UNDER A SYSTEM SHARE IDENTICAL LOWEST-COMMON-DENOMINATOR CHARACTERISTICS AND, CONSEQUENTLY, WHICH IMPOSE A SINGLE MODE OF CONDUCT ON ALL SUCH PERSONS. THEREFORE, IT IS SOMEWHAT IRONIC THAT ADVOCATES OF REGULATORY REFORM OFTENTIMES PROPOSE TO REMEDY THIS SITUATION BY REGULATING THE REGULATORS UNDER A LEGISLATIVE SCHEME HAVING THE IDENTICAL DEFECT OF SEEKING TO FORCE ALL AGENCIES INTO A SINGLE MODE OF CONDUCT BASED ON A LOWEST-COMMON-DENOMINATOR MODEL. BUT, I AM PERSONALLY SKEPTICAL THAT THE TASK OF REGULATORY REFORM CAN BE ACCOMPLISHED BY PANACEAS, QUICK-FIXES, OR ADMINISTRATIVE SHORTCUTS.

AS YOU KNOW, THE COMMISSION IS A SMALL, HIGHLY-MOTIVATED AGENCY WITH AN UNUSUALLY TALENTED STAFF. IF GOOD GOVERNMENT CANNOT BE MADE TO WORK AT THE COMMISSION, IT PROBABLY WILL NOT BE FOUND ANYWHERE IN THE FEDERAL SYSTEM. YET, WHILE

REGULATORY REFORM, TO A LARGE EXTENT, WILL LIKELY BE ACHIEVED BY THE DEDICATION AND TALENTS OF THE MEN AND WOMEN IN PUBLIC SERVICE RATHER THAN ANY LEGISLATIVE MANDATE, MANY OF THE CONSEQUENCES OF THE PRESENT ANTI-REGULATORY POLITICAL CLIMATE ARE COUNTER-PRODUCTIVE TO MAINTAINING SUCH A QUALITY CIVIL SERVICE.

THE COMMISSION ALREADY IS SEEING CERTAIN SUBTLE IMPLICATIONS OF THAT POLITICAL CLIMATE WHICH MAY MAKE OUR POLITICAL OPERATIONS -- AND POSSIBLY THE WORK OF MANY PRACTITIONERS -- THAT MUCH MORE DIFFICULT. LET ME CITE AN ILLUSTRATION. WHILE I FULLY APPRECIATE AND SUPPORT THE NECESSITY FOR BUDGETARY CONSTRAINTS IN THESE INFLATIONARY TIMES, THE COMMISSION'S STAFF HAS ACTUALLY BEEN REDUCED IN SIZE DESPITE THE GROWING ACTIVITIES IN THE FINANCIAL COMMUNITY THAT I MENTIONED EARLIER AND THE MANY INCREASED LEGAL OBLIGATIONS -- SUCH AS THOSE IMPOSED BY THE FOIA -- WHICH HAVE

BEEN PLACED UPON US. BUT, IF ITS STAFF RESOURCES ARE NOT REASONABLY COMMENSURATE WITH ITS RESPONSIBILITIES, THE COMMISSION WILL EXPERIENCE ITS OWN BACK OFFICE PROBLEMS. AND, UNFORTUNATELY, ANY OSTENSIBLE SAVINGS IN STAFF MADE IN THE INTEREST OF BUDGETARY FRUGALITY WILL RESULT IN EVEN HIGHER COSTS AND BURDENS TO THE PRIVATE SECTOR. AN UNREASONABLY OVERBURDENED STAFF MEANS LESS EXPEDITIOUS PROCESSING OF FILINGS. A DELAY IN PROCESSING A REGISTRATION STATEMENT, FOR EXAMPLE, COULD MEAN THAT A CORPORATION MIGHT EXPERIENCE THE COSTS ASSOCIATED WITH DELAY IN REACTING TO TEMPORARILY ADVANTAGEOUS MARKET CONDITIONS. MOREOVER, AN INADEQUATE STAFF LEVEL MEANS THAT INVESTORS MAY SUFFER INCREASED INVESTMENT LOSSES, BECAUSE A SIGNIFICANTLY DIMINISHED STAFF CAPABILITY WOULD BE LESS LIKELY TO IDENTIFY AND PURSUE POTENTIALLY FRAUDULENT OFFERINGS AND TRANSACTIONS. FINALLY, HUMAN NATURE DICTATES THAT AN OVERBURDENED STAFF HAS A TENDENCY TO TREAT SIMILAR ISSUES IN

AN IDENTICAL MANNER -- SIMPLY BECAUSE THAT IS A LESS TIME-  
CONSUMING APPROACH THAN DETERMINING AND CONSIDERING THE  
IMPLICATIONS OF THE DISTINCTIONS THAT MAY EXIST BETWEEN THEM.  
THUS, THE INNOVATIVE APPROACH OR PROJECT MAY NOT, IN SUCH  
SITUATIONS, ALWAYS RECEIVE THE ATTENTION OR APPRECIATION FROM  
THE STAFF THAT SHOULD BE DUE IT. THESE KINDS OF PROBLEMS MAY  
LEAD THE PUBLIC, UNAWARE OF THE UNDERLYING PERSONNEL SHORTAGE,  
TO CONCLUDE THAT IT IS DEALING WITH AN INEFFICIENT,  
UNRESPONSIVE BUREAUCRACY.

SIMILARLY, IT HAS BEEN WELL PUBLICIZED THAT WE HAVE  
LOST A NUMBER OF KEY STAFF MEMBERS AS A RESULT OF THE  
POST-EMPLOYMENT RESTRICTIONS OF THE RECENTLY-ENACTED  
ETHICS LEGISLATION. BUT, LESS OBVIOUS WILL BE THE  
CONTINUING EFFECT OVER TIME OF THE GROWING DISPARITY

BETWEEN PUBLIC AND PRIVATE SECTOR REMUNERATION LEVELS. MOREOVER, THE PRIDE IN PUBLIC SERVICE WHICH HISTORICALLY HAS AT LEAST PARTIALLY COMPENSATED FOR ITS LOWER SALARIES SEEMS LESS COMPELLING THESE DAYS -- PERHAPS AS A RESULT OF THE INCREASING DISPARAGEMENT OF GOVERNMENT EMPLOYEES, INCLUDING FROM THE HIGHEST LEVELS OF GOVERNMENT ITSELF. THE GRADUAL EROSION OF THE STAFF'S TRADITIONAL HIGH QUALITY WHICH IS THREATENED BY THESE TRENDS WILL BE SUBTLE AND DIFFICULT TO QUANTIFY. NONETHELESS, I DO NOTE THAT THE PERCENTAGE OF GRADUATING LAW STUDENTS WHO ACCEPTED OUR EMPLOYMENT OFFERS THIS YEAR DROPPED BY MORE THAN A THIRD COMPARED TO LAST YEAR. I CAN ASSURE YOU, HOWEVER, THAT, TO DATE, THERE HAS BEEN NO LOSS IN THE QUALITY OR COMMITMENT OF OUR STAFF, AND THAT, REGARDLESS OF THESE HURDLES, THE COMMISSION WILL CONTINUE TO STRIVE TO PERFORM

WITH THE PROFESSIONALISM AND DEDICATION WHICH THE INVESTING PUBLIC HAS COME TO EXPECT.

IT IS IN THIS ENVIRONMENT THAT THE COMMISSION WILL BE SHORTLY WITNESSING ITS FIFTIETH ANNIVERSARY. AN AGENCY NOW MATURE IN YEARS, IT MUST NEVERTHELESS FACE THE CHALLENGES TO WHICH I HAVE REFERRED WITH A YOUTHFUL SPIRIT OF FLEXIBILITY AND INNOVATION. INDEED, THE COMMISSION HAS RESPONDED BY RECONSIDERING -- AND, IN SOME INSTANCES, FUNDAMENTALLY RESTRUCTURING -- VIRTUALLY EVERY ASPECT OF OUR BROAD RANGE OF REGULATORY RESPONSIBILITIES. AND THAT INCLUDES RE-EXAMINING NOT ONLY OUR RULES, FORMS, AND PROCEDURES; BUT ALSO THE PHILOSOPHIC ASSUMPTIONS UPON WHICH THE COMMISSION HAS BASED AN ALMOST HALF-CENTURY OF ADMINISTERING THE FEDERAL SECURITIES LAWS.

TO ILLUSTRATE THE BREADTH OF THIS INSTITUTIONAL SELF-ANALYSIS, LET ME QUICKLY TICK OFF SOME EXAMPLES.

FIRST, IN THE CORPORATE DISCLOSURE AREA, THE COMMISSION PRESENTLY IS INSTITUTING PROGRAMS WHICH, IN MY JUDGMENT, ARE THE HARBINGERS OF THE DISCLOSURE SYSTEM THAT WILL EVOLVE IN THE SECOND HALF-CENTURY OF THE FEDERAL SECURITIES LAWS: INTEGRATION OF THE 1933 AND 1934 ACTS WITH AN INCREASING EMPHASIS ON A 1934 ACT CONTINUOUS REPORTING ORIENTATION, FOCUSED ON FINANCIAL INFORMATION IN ITS BROADER SENSE -- INCLUDING DISCLOSURE OF SOFT AND FUTURE-ORIENTED INFORMATION. MOREOVER, IMPORTANT PROGRESS HAS BEEN MADE IN OUR EFFORTS TO ELIMINATE UNNECESSARY IMPEDIMENTS TO THE ABILITY OF SMALL BUSINESSES TO RAISE CAPITAL IN THE SECURITIES MARKETS. SECOND, IN THE INVESTMENT MANAGEMENT AREA, THE COMMISSION IS ENGAGED IN A RE-EXAMINATION OF ITS REGULATION OF INVESTMENT COMPANIES THAT ALREADY HAS RESULTED IN IMPORTANT STEPS TO RETURN THE PREROGATIVES -- AND RESPONSIBILITIES -- OF MANAGING INVESTMENT COMPANIES

TO THEIR MANAGEMENT UNDER THE ACTIVE OVERSIGHT OF THEIR BOARDS OF DIRECTORS. IN MARKET REGULATION, THE LIKELY FOUNDATIONS OF THE FUTURE NATIONAL MARKET SYSTEM ARE BECOMING OPERATIONAL -- AND ARE WORKING GENERALLY SATISFACTORILY. IN OVERSEEING THE ACCOUNTING PROFESSION, THE PROFESSION AND THE COMMISSION ARE FACING VERY SIGNIFICANT QUESTIONS WHOSE RESOLUTION -- OR LACK OF RESOLUTION -- MAY WELL DETERMINE WHETHER ACCOUNTANTS WILL BE PRIMARILY RESPONSIBLE TO PROFESSIONALLY-ESTABLISHED STANDARDS, OVERSIGHT, AND DISCIPLINE -- OR TO INCREASED GOVERNMENTAL REGULATION. IN OUR OWN DECISION-MAKING PROCESS, THE COMMISSION IS STRENGTHENING ITS CAPABILITY FOR ECONOMIC ANALYSIS SO THAT THE COMMISSION CAN BETTER UNDERSTAND THE INDUSTRY IT REGULATES AND THE ECONOMIC CONSEQUENCES OF ITS ACTIONS. FINALLY, THE COMMISSION WILL

BE REQUIRED TO ADDRESS NEW PROBLEMS THAT HAVE ARISEN  
BECAUSE OF AN APPARENT UNWILLINGNESS ON THE PART OF SOME  
COURTS TO IMPLY WHAT CONGRESS SHOULD HAVE EXPRESSED -- THAT  
IS, THE IMPORTANCE OF PRIVATE LITIGATION IN ENSURING  
COMPLIANCE WITH THE FEDERAL SECURITIES LAWS. THIS  
SITUATION PUTS INCREASING RESPONSIBILITY AND INCREASING  
STRAIN ON THE COMMISSION'S DEDICATED -- BUT LIMITED --  
ENFORCEMENT STAFF. YET, DESPITE THE PRESSURES OF ITS  
WORK LOAD, OUR ENFORCEMENT DIVISION HAS BEEN ABLE  
TO PROVIDE A COMMISSION PRESENCE THAT IS, IN MY OPINION,  
UNRIVALED BY ANY OTHER ADMINISTRATIVE AGENCY.

I SHOULD NOTE THAT MANY OF THE EFFORTS WHICH I JUST  
DESCRIBED ARE INTENDED TO FACILITATE AND SUPPORT PRIVATE  
SECTOR INITIATIVES. OTHER EFFORTS ARE INTENDED TO EASE  
SOME OF THE BURDENS ASSOCIATED WITH REGULATION. STILL

OTHERS ARE NECESSARY TO MAINTAIN A FAIR AND EFFICIENT  
SECURITIES MARKET AND CONFIDENCE IN SECURITIES. HOWEVER, I  
MUST EMPHASIZE THAT ALL INVOLVE A CAREFUL BALANCING OF THE  
INTERESTS OF THE INVESTING PUBLIC WITH OTHER CONCERNS FOR  
WHICH WE MUST BE INCREASINGLY SENSITIVE: THEIR IMPLICATIONS  
FOR THE EFFECTIVE FUNCTIONING OF THE CAPITAL MARKETS; THE  
COSTS TO BE INCURRED; THEIR LIKELY EFFECTS ON PRIVATE SECTOR  
INITIATIVES; AND THE COMMISSION'S OWN LIMITED RESOURCES.  
THESE ARE DIFFICULT, SOPHISTICATED MATTERS. PEOPLE OF REASON  
AND GOODWILL -- BOTH INSIDE AND OUTSIDE THE COMMISSION -- MAY  
DIFFER IN HOW THE TRADEOFFS SHOULD BE BALANCED. BUT, ONE OF  
OF THE GREATEST ATTRIBUTES OF THIS AGENCY OVER THE YEARS HAS  
BEEN ITS ABILITY TO FACE UP TO ITS RESPONSIBILITIES AND MAKE  
THE HARD DECISIONS.

AS I REVIEW THE COMMISSION'S WORKINGS AT THE HALFWAY POINT IN MY CHAIRMANSHIP, I TAKE A CERTAIN DEGREE OF COMFORT -- NOT BECAUSE WE CAN ANTICIPATE RESOLVING ALL THE ISSUES THAT THE COMMISSION FACES TO EVERYBODY'S SATISFACTION, BECAUSE WE OBVIOUSLY CANNOT -- BUT FROM THE FACT THAT THE COMMISSION IS SENSITIVE TO THESE ISSUES AND HAS UNDERTAKEN TO ADDRESS THEM. YET, I MUST ALSO RECOGNIZE THAT THE COMMISSION'S ROLE -- AS IMPORTANT AS IT IS -- ONLY IS DIRECTED TO THE MECHANICS OF THE CAPITAL FORMATION PROCESS -- SUCH AS FACILITATING AN EFFICIENT MARKETPLACE AND MEANINGFUL DISCLOSURE. WHILE THE COMMISSION HAS BEEN MEETING ITS RESPONSIBILITY TO ENSURE THAT THESE MECHANICS DO NOT, IN THEMSELVES, FRUSTRATE THE CAPITAL FORMATION PROCESS, IT IS LARGELY A FUNCTION OF GOVERNMENTAL MONETARY, FISCAL AND TAX POLICIES THAT DETERMINE THE EXTENT TO WHICH THE PROCESS IS UTILIZED.

IN THIS REGARD, I AM TROUBLED BY THE CHARACTERISTICS OF THE PRESENT CAPITAL MARKETS: THE APPARENT DEMISE OF DEBT INSTRUMENTS EXCEPT IN THEIR MOST SHORT-TERM FORM; THE TRANSFER OF NEEDED RESOURCES FROM THE CAPITAL FORMATION PROCESS AND INTO SPECULATIVE MEDIA, WHICH NEITHER CONTRIBUTE TO NATIONAL PRODUCTIVITY NOR GENERALLY ARE APPROPRIATE TO THE NEEDS OF PUBLIC INVESTORS; AND THE WIDESPREAD MANAGERIAL DETERMINATION THAT IT IS CHEAPER AND BETTER TO ACQUIRE THAN TO BUILD AND INNOVATE.

THE ECONOMIC MISALLOCATIONS CAUSED BY HIGH LEVELS OF INFLATION CANNOT BE ALLOWED TO CONTINUE. NOR CAN FREE-ENTERPRISE DEMOCRACY FUNCTION UNDER SUCH STRAINS. AS I CONCLUDE MY REMARKS TO YOU THIS YEAR, I CANNOT HELP BUT THINK THAT MY SPEECH NEXT YEAR WILL BE SHAPED BY THE EXTENT TO WHICH THE NATION ADDRESSES ITS ECONOMIC CHALLENGES BETWEEN NOW AND THEN.

THANK YOU.