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This morning I would like to highlight the securities industry's and the SEC's 1982 results - and the prospects for the balance of this decade.

Record 1982 Revenues, Earnings and Capital

The securities industry has never been in better financial or operational condition. Despite the poor first half, 1982 revenues, earnings and equity capital will all establish new records - up 5% to 15% over prior highs. Industry-wide revenues will exceed $27 billion, pretax earnings - $3 billion, and year-end equity capital of over $11.5 billion will amount to approximately 85% of the industry's $13.7 billion of total capital.

Since the long predicted 100 million share day on August 18th, volume has exceeded that figure on 24 occasions - and averaged 85 million shares a day. The industry's high speed electronic communication and data processing systems, skilled personnel and management have efficiently handled the record volume. Unlike in previous surges, daily initial New York Stock Exchange uncompared rates have generally been less than 5%, and Saturday trade resolution sessions have not been necessary.

The industry's successful handling of the record volume is the product of careful preparation. Since 1975, the exchanges, the NASD and securities firms have spent over $600 million upgrading their facilities.

The SIA has played an important role. The 1980 convention was largely devoted to the necessity to prepare for 100 million share days. And SIA committees of industry professionals have done an outstanding job of anticipating and addressing the complex problems and issues with which the industry has been confronted. Thus, the SIA, the exchanges, the NASD and the individual firms deserve great credit for the industry's remarkable 1982 performance.

Key Trends

Additional opportunities and challenges lie ahead. The following figures are based on New York Stock Exchange volume, but the conclusions apply to all markets in general.

Since 1950, the NYSE volume has tripled every decade. It averaged 2.2 million shares a day in the 50s; 6.9 million in the 60s; 19.5 million in the 70s; and has averaged 51 million shares a day in the 1980s to date.

This progression is due to a number of inter-related factors. Each decade, new listings, public offerings, stock splits and dividends have roughly doubled the number of NYSE listed shares.

Volume has increased even more rapidly, due to:

- o the growth of pension, mutual, insurance and other institutional funds;
- o greater block positioning by securities firms;
- o higher speed, lower cost executions;
- o instant worldwide news dissemination and analysis;
- o the increasing internationalization of our markets;
- o risk shifting and tax deferment through the growing options markets;
- o increasing risk and computerized arbitrage;
- o and the recent reductions in the rates of capital gains taxation, interest and inflation.

In addition, high volume breeds high volume. Increasing market liquidity has afforded institutions, issuers and underwriters much greater flexibility. Institutions can at last switch large positions from one company or industry to another on a timely basis, and issuers and underwriters have greater options in the structuring, size and timing of financings.

1980-2000 Prospects

Industry projections are tenuous at best, but securities firms, exchanges and the NASD, must continue to anticipate future problems and opportunities, under various "what if" scenarios. "What if" past trends persist? Some believe they will accelerate, but if they merely persist, the equivalent average daily NYSE volume for the decade of the 1980s will be 60 million shares - which seems conservative, by comparison with the present volume. Around the end of this decade - in just seven or eight years - the volume will average 120 million shares a day; and for the decade of the 1990s, it will average 180 million shares a day.

In addition, peak volumes have historically exceeded three times the average daily volume. Allowing for a reasonable margin of safety, this would suggest that the industry should be prepared to handle peak volumes of over 200 million shares a day in the near future - and twice that volume by 1990.

Potential Problems

On the negative side - as in the past, there will continue to be difficult periods of depressed volume and prices, which will result in marginal brokerage earnings.

Also, last year the volume of transactions averaged 1,000th of the share volume. Fifty million share days resulted in 50,000 transactions. However, during the present volume surge 100 million share days have only averaged 70,000 transactions. Block transactions are expected to continue to increase more rapidly than total volume, but the figures to date suggest that the industry should presently be prepared for the possibility of a significant increase in the volume of smaller transactions. Potential problems are also posed by the high level of over-the-counter uncompared transactions, which continue to run at three times the rate for listed trades.

Also, recent changes in the tax laws require:

- securities firms to report to the IRS each sales transaction executed after June 30, 1983;
- and that most municipal offerings after December 31, 1982, be issued in registered form.

Over $60 billion of annual municipal offerings are in prospect. The SIA should review these requirements in the light of the industry's operational capacity. The Commission staff is prepared to assist in addressing these problems.

More Predictions

The foregoing and other trends suggest that by 1990:

- the shareholder population will increase from 32 to about 40 million;
- blocks will increase from 32% last year to about 60% of NYSE volume;
- the ten largest firms will increase their share of the industry's total revenues from 45% to about 60%;
- discounters will increase their share of retail commissions from 5% to over 10% and their portion of retail share volume from 10% to over 20% of the market;
- the industry will require approximately twice its present $13.7 billion of capital;

- the need for more - as well as permanent - capital will induce more firms to merge, incorporate and to go public;

- and regardless of whether the Glass-Steagall Act is amended - the trend toward financial conglomeration will persist through mergers, and the expansion of the banking and insurance type products and services offered by securities firms - as well as the brokerage and other securities services offered by banks, savings and loan associations and insurance companies.

Task Force

If the Glass-Steagall and other acts are not amended, the banks' securities activities will continue to enjoy certain regulatory and tax advantages over securities firms. For these reasons, and in order to reduce mounting regulatory costs, the Commission has proposed that a task force under Vice President Bush recommend measures to simplify and rationalize the regulatory structure of the financial service industries and capital markets, including:

- consolidation of overlapping and duplicative regulatory agencies;

- regulation by functional activities, instead of outmoded industry classifications;

- and reduction of the excessive and conflicting regulations, within and between agencies.

These measures offer the securities industry, issuers and investors potential annual savings of hundreds of millions of dollars.

Our outmoded and pervasive regulatory structures have grown exponentially out of the depths of the depression. Some of these regulations have served the nation well, but many are no longer responsive to the problems and opportunities of the balance of this century.

As for the SEC

1982 has also been a record year for the Commission.

In January the SEC freed-up about $500 million of the securities industry capital by updating the net capital rules to take into account the industry's improved operational and financial condition. An additional $200 million of industry capital has been freed-up, by permitting the use of letters of credit for clearinghouse deposits and stock loan collateral.

These measures have enabled securities firms to make better markets and improve their services to investors - which has contributed to the strength and breadth of the present debt and equity markets.

In February the Commission integrated corporations' registration and reporting requirements under the multiple securities laws and regulations, without compromising full disclosure to investors. Integration will save corporate issuers (and, therefore, their shareholders), several hundred million dollars per annum, and increase issuers' and underwriters' flexibility in structuring and timing public offerings. Integration is one of the most important improvements in the securities laws since they were enacted.

During the year, the Commission also resolved a seven year turf battle with the Commodity Futures Trading Commission, which recently permitted the SEC to authorize trading in Treasury, GNMA, foreign currency, CD and stock index options. These new options will facilitate government and mortgage financings and international trade; and permit market-makers, underwriters, corporations and investors to hedge the risks of fluctuating interest rates and securities markets. Some believe the markets in these new options will surpass those in stock options within a few years.

In March, the Commission exempted from all registration requirements offerings up to $5 million to others than the general public and simplified the exemptions for larger private placements. Most states are expected to adopt comparable exemptions, which will be the first, joint state and federal registration exemptions.

In August the Commission reached an Accord with the Swiss, which removes the haven of the Swiss secrecy laws from those who would trade on inside information. There are many benefits from the increasing internationalization of the securities markets, but the lack of common regulatory and accounting standards affords foreign corporations advantages over U.S. companies in the acquisition of certain U.S. concerns, and compounds disclosure, margin regulation, manipulation and insider trading problems.

The Swiss Accord is an important precedent in addressing these international problems.

During 1982 the Commission has also efficiently processed record filings, and brought the largest number of enforcement cases in several years, despite budgetary constraints and personnel reductions. While insider trading cases have received great visibility, most of the actions have been against companies.

Enforcement

Enforcement is the largest activity at the SEC. It accounts for about a third of the Commission's total resources, which is fully justified by egregious examples of corporate fraud, manipulation and insider trading.

The Robert Vescos and Gary Lewellyns of this world victimize hundreds of companies and securities firms, and hundreds of thousands of investors annually. In bull markets, bucket shops spring up like mushrooms. And in recessions, some companies temporize with bad news or delay its release, while insiders unload securities on the public. Organized criminal elements attempt to launder funds and stolen securities through brokerage accounts. And the list goes on.

On the other hand, legitimate companies, businessmen and brokers should not be subjected to excessive regulations or prosecution through publication of unfounded charges in the press.

Private-Sector Self-Regulation

Greater reliance is being placed on private-sector self-regulation, under the SEC's oversight.

The 428 accounting firms which audit almost all publicly-owned corporations are now on a three-year peer review cycle. These reviews test compliance with high auditing standards. They also reduce auditors' risks of liabilities to those who rely on their audits.

In addition, the exchanges and the NASD are enhancing their inter-market surveillance systems and transaction audit trails, which expedite identification of possible market manipulators and inside traders. Audit trails also reduce transaction reconciliation costs. Effective self-regulation results in better regulation, greater investor protections, lower SEC expenses and more efficient markets.

The Commission is also spending more time listening - to you and securities analysts, and representatives of investors, issuers and the legal and accounting professions. As a result of these meetings, progress is also being made in a number of areas. Some have been mentioned. Others include simplification and improvement of proxy statements and the SEC's releases, and in the facilitation of corporations' ability to communicate with their shareholders, despite the high percentage of shares held in nominee names.

Pending Issues

Two important pending issues are the shelf registration and order exposure rules.

As you know, the shelf rule has been extended until the end of next year. Over 1,900 shelf registration statements have been filed since March. Nearly 90% have been traditional shelf filings - to cover employee stock option and purchase plans, secondary, best effort, tax shelter and mortgage participation offerings. Most of the balance have been investment grade debt filings. Such shelf debt filings amount to 60% of the $56 billion of total debt issues filed in March through October.

The 23 equity shelf filings in March through October amount to only 1% of the 2,400 equity issues filed and to only 2% of the $65 billion of total equity filings. All but one of the 23 are NYSE listed companies. The small number of equity shelf filings is possibly due to (among other things), the dampening effect on the market of large overhangs of shares on the shelf.

Extension of the shelf rule to the end of next year will afford all those in favor and opposed to it the opportunity to study its effects on the primary and secondary markets.

Under the auspices of the SIA, Ralph DeNunzio's ITS-NASD Market Linkage Committee has been working on an Order Exposure Rule for over a year. The Committee has not addressed the question of whether there should be a rule, but rather, the principles such a rule should incorporate, if one is adopted. The principles proposed have been disseminated, so I will not reiterate them, but they are extremely well considered. The industry and the SEC owe the DeNunzio Committee a vote of sincere gratitude for their intensive efforts and wise counsel in addressing these complex issues.

The Commission has also received hundreds of comment letters concerning the order exposure issue, from the securities industry, members of Congress and others. In addition, the Commission's Directorate of Economic and Policy Analysis and others have been carefully monitoring the linkage market in the 30 19c-3 stocks, to determine the effects of this experiment.

It should be noted that Rule 19c-3 is an experiment, not a pilot program. The Rule release states that the Commission will respond - and if necessary terminate the experiment - if the evidence indicates that it is harmful to the market in these stocks.

Over-the-counter transactions in the 30 stocks have increased from 7.5% of the volume before linkage last March to 13.4% in October. There has been a slight improvement in the price continuity of transactions.

Many believe linkage requires an order exposure rule. The extensive materials received by the Commission are being carefully studied, with a view to inviting public comment in the near future on the order exposure principles proposed by the DeNunzio Committee.

Conclusion

In conclusion, 1982 has been a year of extraordinary progress by the securities industry and has set the stage for even greater challenges and opportunities during the balance of this century.

Thank you.