
Statement

of

RICHARD WHITNEY

President of the

NEW YORK STOCK EXCHANGE

in regard to H. R. 7852

**THE SHORT TITLE OF WHICH IS
“NATIONAL SECURITIES EXCHANGE ACT OF 1934”**

The New York Stock Exchange is vitally interested in the bill now pending before you which is called the "National Securities Exchange Act of 1934." We have studied the bill with great care and in stating our opposition to it, I shall, with your permission, discuss: first, the general purpose of the bill and, without going into complete detail, show how the provisions will affect all business and industry and all investors as well as stock exchanges and persons dealing in securities. Secondly, I shall take up the particular provisions of the bill which affect most directly stock exchanges and the business of members of exchanges.

We have arranged to have a number of gentlemen, who can speak authoritatively on the different phases of stock exchange members' business, appear to inform you in this regard.

Each one of these gentlemen is thoroughly familiar with his own line of business and I feel sure that they will be prepared to explain to you as fully as you may desire not only the nature of their business but just how it would be affected by the bill pending before you.

I trust you will not believe that our sole purpose in appearing before this Committee is to criticize and I hope you will understand that we are anxious to be helpful by way of explanation and the suggestion of a definite program.

II.

Before taking up the bill section by section, I desire to say a few words on the bill as a whole and its effect upon the business and industry of this country.

H. R. 7852, although it is entitled "A BILL To provide for the registration of national securities exchanges operating in interstate and foreign commerce and through the mails and to prevent inequitable and unfair practices on such exchanges, and for other purposes", is far from a bill which deals solely with stock exchanges and stock exchange practices. It affects a far wider field unrelated in many ways to transactions on stock exchanges.

The provisions of the bill which purport to deal with margin requirements and brokers' credit might affect the entire credit system. This

is due to the fact that in an effort to prevent any evasion of the restrictions on margin accounts contained in the bill, similar restrictions have been placed on loans made through banks or other persons. In like manner, the provisions of the bill limiting the amount which brokers may borrow and requiring that brokers must borrow only from members of the Federal Reserve System affect credit in a much wider field. Not only will stock exchanges and their members be affected by these provisions but also banks, industry and all investors.

I will not undertake to describe in detail the provisions of the bill affecting banks and banking, as I am advised that the Committee has heard or will hear shortly from persons who are expert on such matters.

The bill also directly affects all companies which may list their securities upon a national exchange. It does so by requiring them to submit registration statements and to furnish information to the Federal Trade Commission, which, under the bill, is charged with the duty of enforcing its provisions. The extent of the power given to the Federal Trade Commission to require listed corporations to furnish it with information and the control over corporate practices, which is likewise given to the Commission, are so great that many of the functions of management are, in effect, transferred to an administrative department of the Government. Certainly, provisions having this effect form no part of a bill dealing with the regulation of stock exchanges and stock exchange practices. I understand that the officers of a number of important companies have asked an opportunity to appear before this Committee, and I feel sure that they will point out the various provisions of the bill which affect them and discuss these provisions fully with you.

I would, however, like to say very briefly a word on behalf of the great number of investors, scattered throughout the country, who may not be represented before this Committee. The bill, naturally, contains many provisions which affect members of exchanges and dealers in securities. But I would like to draw your particular attention to the fact that any regulation of stock exchanges necessarily affects all investors. Stock exchanges are organized as public market places for securities, in which are concentrated the supply and demand which arise from the willingness of owners to sell and the desire of others to buy. A public market by concentrating the buying and selling demand creates fairer prices for the benefit of both buyer and seller and, therefore, the principal function of an exchange is to give the public the facility of sell-

ing the securities which they own and of buying others. There are literally millions of our citizens who own or are interested in listed securities. The vast majority of them are investors and not speculators. Among this great number of persons you will find both rich and poor, but whether they are the owners of thousands of shares or the owners of only a few shares of a single company, they are all interested in the maintenance of a public market for securities. Their interest is a real one because the concentration of supply and demand on exchanges results in creating a market in which securities are daily bought and sold in volume. This gives assurance to the holder of securities that his property can, if it is necessary, be turned promptly into money.

Through the activity of exchanges, securities have remained liquid throughout the entire depression. It is true that they have declined tremendously in value, but in spite of declines securities have remained marketable. Real estate, on the other hand, became practically unsaleable and at times it was impossible to find a buyer for mortgages or other forms of real estate investment. Holders of listed securities, however, have been able to sell them whenever it was necessary to raise money. The interest of these security owners in the bill to regulate stock exchanges is, therefore, very direct and real. To the extent that this bill seeks to regulate exchanges to the point where it will destroy the free and open market for securities, the liquidity of the one form of investment that has remained liquid throughout the depression, will certainly be impaired if not entirely destroyed. I say, therefore, that this bill affects not only members of stock exchanges and dealers in securities but the entire investing public.

III.

With your permission I will now discuss the bill in detail.

Section 1 of the bill contains simply the title of the Act.

Section 2 of the bill consists of a number of statements of fact which I understand are included solely for the purpose of supporting the constitutionality of the bill. I disagree with some of these conclusions and doubt whether they are true. As a layman, I am not competent to discuss questions affecting the constitutionality of the bill. Mr. Gay, of counsel, however, is present and will, if the Committee will permit, make a brief exposition in regard to the provisions of the bill which, in his