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Office of the White House Press Secretary

THE WHITE HOUSE

STATEMENT BY THE PRESIDENT

The American economy has grown and prospered over the years through a system of free enterprise more vigorous and successful than any other economic system in the world. Capital investment has produced millions of jobs and thousands of business opportunities for Americans. The success of that investment system is convincingly demonstrated in every index of the magnitude and basic strength of our economy, and in comparison with the economies of other nations.

Today, our economy is faced with serious challenges. An unprecedented supply of new capital will be required over the next few years to help restore and broaden a sound, expansionary capital base through business and Government investment. In order to insure that our capital markets continue to function fairly and efficiently to meet these challenges, it is vital that we constantly seek ways to improve their operations. Among other things, we must be sure that laws and regulations written 30 or 40 years ago do not unfairly interfere with the need for changes in our modern-day markets. It is with this important goal in mind that I am very pleased to have signed into law the Securities Act Amendments of 1975.

The Importance of Competition

This act will provide important new directives to the industry and its regulators to insure that competition is always a prime consideration in establishing or abolishing market rules. And it will continue to strengthen the rules calling for high standards of financial capability and ethical behavior on the part of those individuals and institutions which perform important market functions. (In this regard, I understand that the legislation contains an inadvertent technical error concerning the presence of a transfer agent as a jurisdictional basis for state or local taxation of securities transactions. I also understand that legislation to correct this error retroactively is being prepared, and that such legislation will receive prompt consideration in Congress. When such corrective legislation is presented to me, I intend to sign it.)

The act seeks to insure that market participants function with the highest degree of efficiency and that the capital markets will themselves be orderly and accessible. The key to reaching this objective will be a new National Market System for Securities. The act charges the industry and the Securities and Exchange Commission to work cooperatively, but in the words of the House-Senate Conferees, it is intended that "the national market system evolve through the interplay of

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competitive forces, as unnecessary regulatory restrictions are removed." No Government formula nor any industry system of exclusionary rules can match the incentives and rewards for innovation and improved efficiency which natural competition provides.

This legislation encourages greater use of available improvements in electronic and communications technology as the basis for a fully-integrated trading system. A system in which buyers and sellers are aware of the full range of securities prices will help insure that artificial restrictions on competition no longer distort the market's true expression of supply and demand. It will also help reduce the cost of transacting trades.

The act also directs members and supervisors of securities exchanges to examine rules which tend to limit the number and variety of participants eligible for membership. Open competition within exchanges is just as important as competition among different markets. The right to enter these markets and provide a necessary public service should not be subject to arbitrary institutional rules which limit competition. It is my hope also that the SEC will, in the process of helping to shape the National Market System, take steps to eliminate obsolete or overlapping regulations which unnecessarily constrain the market.

I also want to stress the importance of the SEC's decision to disallow all fixed rates of brokerage commission previously set by those firms and individuals which comprise the securities industry.

It is my strong belief that Government has unwisely condoned a wide range of anti-competitive price regulation. My Administration will continue to press for legislative reforms to amend or abolish such practices. I commend the SEC for its efforts, and the industry for its cooperation, in reaching the important goal of freely competitive pricing for a full range of brokerage and other services. I am confident that, in the long run, this policy will produce a much healthier industry.

New Protections for Investors

Public confidence is a vital ingredient if our capital markets are to continue to attract a wide variety of investors. Though large institutions have become increasingly active as owners and traders of securities, individuals still represent the backbone of the American capital system. This act provides important new safeguards which will help insure public trust in the securities markets. Among these safeguards are new rules for brokers' financial strength and accountability. The act imposes new restrictions on "self-dealing" to eliminate a potential conflict of interest and deny institutions a special advantage over individual investors. The act further requires periodic disclosure by institutional investors of their holdings and transactions in securities.

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Conclusion

My Administration is seeking major reforms in many Federal regulatory agencies to eliminate unnecessary restrictions and promote more efficient and competitive industries.

This legislation is the product of ten years of intensive work by several Administrations, the Congress, the Securities and Exchange Commission and the many elements of the securities industry.

The product is a good one, and it represents the first of what I hope will be a long series of much-needed regulatory reforms.

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