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EXTENSION OF SEC INSTITUTIONAL INVESTOR STUDY

HEARING BEFORE THE SUBCOMMITTEE ON COMMERCE AND FINANCE OF THE COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE HOUSE OF REPRESENTATIVES

NINETY-FIRST CONGRESS

FIRST SESSION

ON

H.R. 11608, H.J. Res. 754, and S.J. Res. 112

TO AMEND THE SECURITIES EXCHANGE ACT OF 1934 TO
EXTEND THE TIME AND INCREASE THE AUTHORIZATION
FOR THE INSTITUTIONAL INVESTOR STUDY

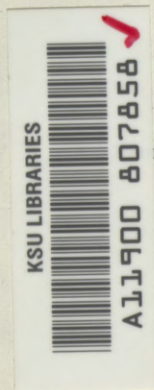
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EXTENSION OF SEC INSTITUTIONAL
INVESTOR STUDY

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EXTENSION OF SEC INSTITUTIONAL INVESTOR STUDY

MONDAY, SEPTEMBER 15, 1969

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON COMMERCE AND FINANCE,
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE,
Washington, D.C.

The subcommittee met at 10 a.m., pursuant to notice, in room 2322, Rayburn House Office Building, Hon. John E. Moss (chairman of the subcommittee) presiding.

Mr. Moss. The subcommittee will be in order.

This morning the Subcommittee on Commerce and Finance is meeting to hear representatives of the Securities and Exchange Commission discuss what they are doing to carry out the study that the Commission was directed to make by the last Congress, and to tell us the reasons for the need which has arisen for the extension of the time for concluding the study.

The authorizing legislation required the Commission to report the results of its study to Congress by September 1, 1969, and provided for an appropriation of \$875,000. In May of this year, the SEC formally requested the Congress to extend the due date of the Institutional Investors Study report by 1 year and to increase the authorization to \$945,000.

The Senate has already approved the SEC's request, and we are meeting here today to consider it. In addition, we thought we would like this opportunity to bring ourselves up to date on the progress of this important study.

We recognize from the beginning that the delay in the appropriation of funds for the study and staffing difficulties were likely to make the September 1, 1969, deadline difficult to achieve. I was somewhat surprised, however, when the SEC requested a full year extension of the due date.

It is my feeling, which I believe is shared by a number of the members of this subcommittee, that it would be desirable to give this Congress an opportunity to consider the results of the Institutional Investor Study, if at all possible. An extension to September 1, 1970, would effectively foreclose this possibility.

We have before us three similar bills, H.R. 11608, House Joint Resolution 754, and Senate Joint Resolution 112, which would extend the time for completing the study. These will be included in the record at this point, as well as the comments made upon them by the agencies concerned.

(The bills and comments referred to follow :)

[H.R. 11608, 91st Cong., 1st Sess., Introduced by Mr. Staggers on May 22, 1969]

A BILL To amend the Securities Exchange Act of 1934 to extend the time and increase the authorization for the institutional investor study

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 19(e) of the Securities Exchange Act of 1934 (15 U.S.C. 78s) is amended by striking out in paragraph (1) thereof "September 1, 1969," and inserting in lieu thereof "September 1, 1970," and by striking out in paragraph (4) thereof "\$875,000" and inserting in lieu thereof "\$945,000".

[H.J. Res. 754, 91st Cong., 1st Sess., Introduced by Mr. Moss (for himself and Mr. Keith) on June 2, 1969]

JOINT RESOLUTION To amend section 19(e) of the Securities Exchange Act of 1934

Whereas additional time is required for the Securities and Exchange Commission to complete its institutional investors study, and file a report with respect thereto, pursuant to section 19(e) of the Securities Exchange Act of 1934: Now, therefore, be it

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That section 19(e) of the Securities Exchange Act of 1934 (15 U.S.C. 78s(e)) is amended—

(1) by striking out in paragraph (1) "September 1, 1969" and inserting in lieu thereof

[S.J. Res. 112, 91st Cong., 1st Sess., June 3, 1969]

JOINT RESOLUTION To amend section 19(e) of the Securities Exchange Act of 1934

Whereas additional time is required for the Securities and Exchange Commission to complete its study, and file a report with respect thereto, pursuant to section 19(e) of the Securities Exchange Act of 1934: and

Whereas the actual amount to be expended by the Commission in making such study and report will not exceed the original authorization of \$875,000; and Whereas an increase of \$70,000 in such authorization is required because of the sums heretofore appropriated pursuant to such authorization \$70,000 will be returned unexpended to the Treasury as of June 30, 1969: Now, therefore, be it

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That section 19(e) of the Securities Exchange Act of 1934 (15 U.S.C. 78s(e)) is amended—

(1) by striking out in paragraph (1) "September 1, 1969" and inserting in lieu thereof "September 1, 1970"; and

(2) by striking out in paragraph (4) "\$875,000" and inserting in lieu thereof "\$945,000".

Passed the Senate June 2, 1969.

Attest:

FRANCIS R. VALEO,
Secretary.

SECURITIES AND EXCHANGE COMMISSION,
Washington, D.C., June 13, 1969.

Re House Joint Resolution 754 and Senate Joint Resolution 112, 91st Congress.

HON. HARLEY O. STAGGERS,

Chairman, Committee on Interstate and Foreign Commerce,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: This is in response to your requests in two letters dated June 4, 1969 for comments on Senate Joint Resolution 112 as passed by the Senate on June 2, 1969, as well as on House Joint Resolution 754. Both bills would amend Section 19(e) of the Securities Exchange Act of 1934 to extend the period of time in which the Commission would report to Congress on the results of its study of institutional investors. However, it appears that H.J. Res. 754 has

left open the date to be specified for such report and it does not include any reference to increase in appropriation authorization as does S.J. Res. 112.

As you are undoubtedly aware, S.J. Res. 112 would amend Section 19(e) of the Act in the same manner as H.R. 11608 on which we submitted our comments to you in our memorandum of May 29, 1969. Both H.R. 11608 and S.J. Res. 112 are similar to the draft bills which had been prepared by the staff of the Commission but on which we had not yet received clearance from the Bureau of the Budget prior to the introduction of these bills in the House of Representatives and the Senate respectively.

The Commission feels that the amendments proposed under both H.R. 11608 and S.J. Res. 112 would be acceptable to enable its staff to complete the study and submit a meaningful report to Congress as directed under Public Law 90-438. Accordingly, in lieu of repeating the statements previously submitted to you in our memorandum of May 29, 1969 on H.R. 11608, I am taking the liberty of enclosing additional copies of that memorandum as it sets forth the reasons why the Commission strongly favors enactment of this legislation.

Sincerely,

HAMER H. BUDGE, *Chairman.*

Enclosures.

* * *

SECURITIES AND EXCHANGE COMMISSION,
Washington, D.C., May 29, 1969.

Re H.R. 11608, 91st Congress.

Hon. HARLEY O. STAGGERS,

*Chairman, Committee on Interstate and Foreign Commerce,
House of Representatives, Washington, D.C.*

DEAR MR. CHAIRMAN: Pursuant to your request of May 23, 1969, the Commission has examined H.R. 11608. This bill would amend Section 19(e) of the Securities Exchange Act of 1934 so as to extend from September 1, 1969 to September 1, 1970 the date by which the Commission shall report to the Congress on the Institutional Investor Study which was authorized under Public Law 90-438. The bill would also increase the amount authorized for the study from \$875,000 to \$945,000, although the amount to be actually expended for this purpose will not exceed the \$875,000 as originally authorized.

The Commission strongly favors enactment of H.R. 11608 for the reasons set forth in the enclosed memorandum.

As you may undoubtedly recall, the Committee reports accompanying the respective joint resolutions leading to enactment of Public Law 90-438 anticipated that they included "both a tight time schedule and a limited sum of money for a study of the importance and magnitude that is contemplated by this proposed resolution." (See page 4, House Report No. 1665, 90th Congress, 2d Session, accompanying H.J. Res. 946; Senate Report No. 1237, 90th Congress, 2d Session, accompanying S.J. Res. 160). Such reports reflected the testimony and written reply of the then Chairman Manuel F. Cohen before the respective Committees and, in this connection, attention is invited to page 15, ninth and eleventh paragraphs, of Hearings before the Subcommittee on Commerce and Finance of the Committee on Interstate and Foreign Commerce, House of Representatives, June 21, 1968 on H.R. 7696 and H.J. Res. 946, "Over-the-Counter Margin Regulations", and to the reply to Question 3 on page 37 of the Hearings before the Committee on Banking and Currency, United States Senate, May 16, 1968, on S. 1299 and S.J. Res. 160, "Securities Exchange Act Amendments".

The Bureau of the Budget has advised that it has no objection to the submission of this comment from the standpoint of the Administration's program.

Sincerely,

HAMER H. BUDGE, *Chairman.*

Enclosure.

MEMORANDUM OF THE SECURITIES AND EXCHANGE COMMISSION PREPARED FOR SUBMISSION TO THE COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE OF THE HOUSE OF REPRESENTATIVES ON H.R. 11608, 91ST CONGRESS, MAY 29, 1969

This statement is submitted by the Securities and Exchange Commission in support of the enactment of H.R. 11608, which would amend Section 19(e) of the Securities Exchange Act of 1934. Section 19(e) was enacted by Public Law 90-438 and requires a report on institutional investing practices to be submitted to Congress by the Commission on or before September 1, 1969. The amendment would provide that the report be submitted by September 1, 1970 instead of September 1, 1969, and the authorization be increased from \$875,000 to \$945,000. This increase

in authorization is required because \$70,000 of the funds already appropriated will not be spent before June 30, 1969. The total amount to be expended will not exceed \$875,000, as originally authorized, but will be expended over a longer period.

I. The reasons for requesting this extension and increase in the amount of authorization are explained below :

A. Public Law 90-438 amended Section 19(e) of the Securities Exchange Act to direct the Commission to conduct an economic study of institutional investing and certain of its effects. The Commission was directed to consult with industry representatives in the course of such study. Funds were appropriated to commence the Study on October 21, 1968, and apportioned by the Bureau of the Budget on October 31, 1968. To organize and staff the Study, the Commission promptly consulted industry representatives and began discussions with a number of highly respected professional economists during the months of November and December 1968.

B. In December 1968 the Commission was successful in securing the services of Dr. Donald Farrar, Associate Professor of Finance at Columbia University, to direct the Study. Following consultation with a broad cross section of industry representatives, a distinguished panel of leaders from the securities industry and related industries was assembled to advise and assist the Commission during the course of the Study. Members of the Advisory Committee have consulted with the Study staff individually, and meet regularly as a body at monthly intervals.

C. To assemble a professional staff to conduct the Study it was necessary to recruit assistance from outside the Commission. During January and February 1969, Dr. Farrar spent the bulk of his time arranging for the collaboration of attorneys and professional economists in the Study. As of June 1st, twenty-two positions have been filled, and most of the remaining positions will be filled by June 10. Because of commitments to complete academic courses and other projects, six staff members will not be able to devote full time to the business of the Study until the close of the current academic year. The staff has nevertheless made substantial progress in formulating specific courses of action to collect and evaluate data as promptly as feasible. Much of this data, as noted in the legislative history of Public Law 90-438, is not now publicly reported. Various members of the Study staff, at the suggestion of the Advisory Committee, have conducted approximately forty preliminary interviews with representatives of industry and have canvassed other Government agencies to ascertain the extent to which records exist of pertinent information. Questionnaires are currently being drafted to collect as much information as is reasonable to request and process. The precise information to be requested will vary somewhat from industry to industry, but the principal subjects of inquiry will be the composition of portfolios and the transactions made on dates to be selected. When completed the proposed questionnaires will be reviewed with the Advisory Committee, the Bureau of the Budget and other interested persons. It is anticipated that some questionnaires will be distributed to industry prior to July 1, 1969. At about the same time a further series of interviews with representatives of institutions and others will begin to obtain data which is not practicable to collect in questionnaire form.

D. To allow the recipients of questionnaires sufficient time to assemble and report the required information, and to allow the study staff adequate opportunity to evaluate the results of the questionnaires, and to collect, by interviews or further questionnaires, additional needed information, it is believed essential to defer the date of submission of a completed report to Congress beyond September 1969. It is unlikely that all required information will be in hand prior to January 1970. Although information will be analyzed as received where practicable, it is doubtful whether the Study staff will be in a position to complete a comprehensive analysis of all such information before the end of the first quarter of 1970. It is anticipated that the result of such analysis will be available to the Commission for its comments in time to enable a full report to be prepared during the summer of 1970. Accordingly, while the Study will continue to be treated as an urgent matter, it does not appear reasonable to project a date earlier than September 1, 1970, as a final completion date for the Study's report.

E. In addition to completing its staffing and doing the groundwork for questionnaires and interviews, the Study group has outlined, with the assistance of its Advisory Committee, the subjects which it presently believes the Study should attempt to cover. This should make it possible to begin drafting expository sections of the Study not requiring collection of addi-

tional information. Some such work already has been undertaken. Additional work of this nature—the collection of existing information on institutional participation in capital flows in the economy—serves as basic background for the Study. Much work in this field has been done by the National Bureau of Economic Research. The materials and resources available to the Bureau enable this portion of the Study to be made most expeditiously and at least expense by contract with the Bureau. The Bureau estimates, however, that although it already has begun work on this project, it will require until June 15, 1970 to conclude. Additional time will be required to integrate the Bureau's findings with the Study staff's findings, reinforcing the need for an extension of the reporting date beyond September 1, 1969.

II. Information which has been gathered since the Study was organized emphasizes the continuing importance of its subject matter. Equities held by the principal institutional investors, bank administered trusts, employee benefit funds, mutual funds, insurance companies, foundations and endowments are estimated as of the end of 1968 to exceed \$250 billion, almost 10% more than in mid-1968. The potential impact of institutional trading on stability of securities prices and the existing organization of our capital markets is therefore increasing rapidly. One index of such impact—the number of trades of 10,000 shares or more on the New York Stock Exchange—reached an all-time high in the last quarter of 1968. This makes it increasingly urgent to ascertain whether current market structures are adequate to permit institutional trading on a large scale while maintaining fair and orderly securities markets for the protection of individual direct investors. Another important question is whether institutional "performance" requirements encourage issuers to achieve short-term market gains through highly leveraged and increasingly complex financial structures which may sometimes jeopardize their stability over the long term. If such requirements were to result in accepting higher risks and unduly diverting financial resources away from enterprises in which returns are realized only over long periods, serious national implications could exist. Of at least equal importance would be whether such requirements indirectly tend to produce greater stock price volatility because of rapid institutional trading not motivated by judgments of long-term value. The answers to these and other questions involved in the Study are thus extremely significant. Preliminary information thus far collected has confirmed our belief at the time of enactment of Public Law 90-438—that the subject is indeed complex, and must be better understood and monitored if Congress is to keep abreast of important trends in the equity markets. Preliminary information also indicates that the basic data needed to analyze these trends is often not preserved by the firms generating the data. To permit adequate understanding of the behavior of capital markets, therefore, it may be important for the future to develop practical means of collecting data as it is produced, without compromising any confidential or proprietary aspect of such data.

III. The provision to increase the sum of \$875,000 authorized to be appropriated to \$945,000 is necessary to cover proposed expenditures in July and August of calendar 1970 (fiscal 1971). As shown on Exhibit A, the estimated total amount of appropriated funds of \$945,000 will be reduced by the return of \$70,000 to the general fund of the Treasury on June 30, 1969. Thus, the total expenditure for the Study is estimated at \$875,000.

EXHIBIT A

SECURITIES AND EXCHANGE COMMISSION

Statement of authorization and appropriation study of institutional investors

Initial sum authorized to be appropriated.....	\$875, 000
Additional authorization requested.....	70, 000
Total authorization.....	945, 000
Appropriated—Fiscal 1969.....	300, 000
Requested—Fiscal 1970.....	575, 000
Additional amount required—Fiscal 1971.....	70, 000
Subtotal	945, 000
Less: Amount returned to general fund of the Treasury as of June 30, 1969	—70, 000
Total cost.....	875, 000

Mr. Moss. We hope in the statements representing the views of the agency that we will have an explanation of the need for a full year's extension of the study rather than an extension, say, to June 30, 1970.

I understand Commissioner Richard B. Smith and Dr. Donald Farrar, who directs the study, are appearing on behalf of the Commission.

I am also pleased to welcome the Chairman of the Commission, Chairman Budge.

Gentlemen, the committee will be pleased to hear from you.

STATEMENTS OF HON. HAMER H. BUDGE, CHAIRMAN, AND RICHARD B. SMITH, COMMISSIONER, SECURITIES AND EXCHANGE COMMISSION; ACCOMPANIED BY HUGH F. OWENS AND JAMES NEEDHAM, COMMISSIONERS; FRANK DONATY, COMPTROLLER; PHILIP A. LOOMIS, JR., GENERAL COUNSEL; AND MEMBERS OF THE COMMISSION'S INSTITUTIONAL INVESTOR STUDY STAFF: DR. DONALD FARRAR, DIRECTOR; DR. SEYMOUR SMIDT, ASSOCIATE DIRECTOR; ROY SCHOTLAND, CHIEF COUNSEL; AND DONALD FEUERSTEIN, COUNSEL

Mr. BUDGE. Mr. Chairman, we very much appreciate your giving us the time to appear on behalf of these resolutions.

Accompanying Commissioner Smith and Dr. Farrar are also Commissioner Hugh F. Owens and Commissioner James Needham of New York. This is the first opportunity Commissioner Needham has had to appear before your committee.

Mr. Moss. We welcome you, I assure you, and look forward to working with you.

Mr. BUDGE. Mr. Chairman, The Commission attached enough importance to this study so that it felt that it was deserving of the almost full-time services of one of the Commissioners. Commissioner Smith did that in the early stages. He has since devoted a great deal of time to the institutional study, and I think is far better informed, actually, to testify on it than I would be. That is the reason he is appearing here this morning with Dr. Farrar, who is the director of the study. Commissioner Smith will make the statement on behalf of the Commission.

Mr. Moss. Thank you. Mr. Smith?

Mr. SMITH. Thank you, Mr. Chairman.

I would first like to introduce to the subcommittee the staff who have accompanied me to this hearing and who are available to respond to any questions of the committee if you wish to place any to them.

To my right is Dr. Donald Farrar, the director of the Commission's Institutional Investor Study.

On the other side of the aisle are Dr. Seymour Smidt, the study's associate director; Mr. Donald Feuerstein, counsel to the study; and Mr. Roy Schotland, chief counsel to the study. Also here are Frank Donaty, who is the Commission's comptroller, and Philip A. Loomis, Jr., the Commission's general counsel.

As Chairman Budge has indicated, I appear before the subcommittee to testify on behalf of the Commission in support of H.R. 11608, House Joint Resolution 754, and Senate Joint Resolution 112, referred in the House to this committee.

I have prepared a short statement which I intend to give orally. I have already submitted a longer statement that is before you.

Mr. Moss. Hearing no objection, the longer statement will be included in its entirety in the record at the conclusion of your oral presentation.

Mr. SMITH. The bill and both joint resolutions would extend the reporting date for the Commission's Institutional Investor Study. The study currently is carrying out the Congress' direction in Public Law 90-438 to examine the purchase, sale and holding of securities by institutions such as banks, mutual funds, insurance companies, pension funds, college endowments and foundations.

Public Law 90-438 requires the Commission to report the results of the study to Congress by September 1, 1969 and authorizes an appropriation of \$875,000. At the very outset, the full committee recognized, as did the committee of the other body, "that this is both a tight time schedule and a limited sum of money for a study of the importance and magnitude that is contemplated * * *"¹ The time required for staffing and designing the study has made it impossible to complete the assignment by the specified reporting date. On June 2, the Senate voted an extension until September 1, 1970.² The Commission hopes that this subcommittee will recommend similar action.

I hasten to point out that we are not planning to request any more money from the Congress than was originally authorized.

Before I explain why we believe an extension of this length is necessary, I would like to give you a brief report on the type of study that has been designed and the cooperation and assistance we are receiving from institutions, securities firms and organizations and other Government agencies. The longer statement I have filed goes into these and other matters somewhat more fully.

STUDY DESIGN

A central portion of our study will deal with the impacts of rapidly increasing institutional investing on the securities markets and the securities industry. Projects in this part will attempt to ascertain the extent to which institutions, or classes of institutions, buy or sell the same securities at the same time, the origins and market impacts of such "parallel" trading, the market impacts of other forms of institutional trading, institutional choices of securities markets, institutions' uses of the services offered by the securities industry, and the organization of that industry to supply those services.

Another major portion of the study will deal with the relationships between institutional investors and the corporations whose securities are held in their portfolios. In this part, projects have been designed dealing with such subjects as concentration of institutional stockholdings in particular companies and industry groups, institutional voting patterns and institutional participation in representative transfers of corporate control; for example, proxy fights and contested mergers and tender offers. Other projects in this part of the study will examine the effects of institutionalization upon the financing alternatives of American business and the participation of institutions in new issues of securities.

¹ H. Rep. No. 1665, 90th Cong., 2d sess. (1968) ("House report"), p. 4; S. Rep. No. 1237, 90th Cong., 2d sess. (1968) ("Senate report"), p. 4.

² S.J. Res. 112, passed June 2, 1969.

These two "markets" and "companies" portions of the study deal with observed impacts of institutionalization on specific sections of the economy. To understand their causes and project future trends in such effects, it is necessary to look inside the institutions themselves. For example, we shall attempt to learn about their internal organization, the sizes and types of the funds they manage, the legal environments within which they operate, the characteristics of the securities in their portfolios, their investment policies, their trading activities and other determinants of their growth and operation. This, then, is the third major portion of the study, dealing with the "institutions" themselves.

There are two other parts to the study design. One significant part looks at the sources and flows of savings to financial institutions and the resulting allocations of those savings by the intermediary institutions among alternative issuers of securities. The fifth and final part attends to recommendations on requirements for the continuous reporting of information about institutional investing.

COOPERATION AND OUTSIDE ASSISTANCE

As you will recall, when Public Law 90-438 was being considered, numerous promises of cooperation, assistance, and support were received from financial institutions, securities firms, and organizations and other Government agencies. The full committee relied upon them in fixing the study's authorized appropriation at a relatively low figure that was, in its own words, "not expected to be the entire cost of the study, but only that of the cost to the Commission."¹ So far, I am happy to report, these promises are being kept and I would not and do not expect otherwise.

Thus far, no institution has refused any of our requests for information. This is particularly heartening, since the extensive data on purchase, sales, and holdings of securities that the act obligates us to obtain can only be supplied by the institutions at some significant cost to them. Indeed, the magnitude of this data and the relatively slim resources for data processing available to the study have made it vital for us to obtain our data from the institutions in machine processable form wherever possible. The institutions have recognized that this unique degree of cooperation is essential for the study to carry out its congressional mandate.

As to outside assistance, the Federal Reserve Board and the Federal Deposit Insurance Corporation are particularly interested in our study. They are providing us with substantial support in the form of personnel, computer time, and other resources. The National Association of Securities Dealers is also providing us with personnel. We have been in touch with other government agencies and private organizations and hope that further substantial contributions of outside assistance may be forthcoming.

NEED FOR AN EXTENSION OF TIME UNTIL SEPTEMBER 1, 1970

Although Public Law 90-438 was signed by the President on July 29, 1968, sufficient funds to commence the study were not appropriated until October. Additional time was necessarily consumed developing

¹ H. Rept. 5.

a professional staff of economists and lawyers drawn largely from outside the Commission. As most of the senior personnel selected came from university faculty positions, with one or two exceptions their full-time participation in the study could not begin until late May or early June of this year. In addition, because many institutions do not keep their records in forms that allow easy retrieval of the necessary data it has been necessary to engage in extensive discussions with technical advisory subcommittees of operating and records personnel from each of the groups to be studied to develop questionnaires that could be answered without undue cost or time. Thus, it was not until a few days ago that we were actually able to mail out the first of our questionnaires, dealing with purchases, sales, and holdings of securities by banks.

Even by the most optimistic estimate, we cannot have all our questionnaires out until later this year. To allow the recipients sufficient time to assemble and report the required information, we cannot have all the questionnaire returns in hand prior to early 1970. Although the study's staff will attempt to analyze them as they are received, I do not see how the staff can be in a position to complete a comprehensive analysis of all this information before the late spring of 1970. In the meantime, of course, the staff will be conducting interviews and analyzing existing data to supplement and be supplemented by the questionnaire returns. We hope that the results of all these analyses will be available to the Commission for its consideration in time to enable a full report to be prepared during the summer of 1970, but even this time schedule will require extraordinary efforts by the study's staff and the Commission.

The data and analyses for the entire study are closely intertwined. With the possible exception of our recommendations for regular reporting requirements, no part can be entirely written until the data are collected and analyzed. Consequently, it is simply not possible for the Commission to complete the study prior to September 1, 1970, without placing undue burdens on the recipients of the questionnaires or eliminating essential aspects of the analysis.

Because of the time required for staffing, the study did not spend \$70,000 of its fiscal 1969 appropriation, but this sum of \$70,000 counts against our authorization even though we did not spend it. We are thus requesting an additional authorization of \$70,000 to return us to the full \$875,000 originally authorized by the Congress. This request is merely technical, and will not result in our spending any more than our original authorization.

H.R. 11608 would grant the study an extension until September 1, 1970, and increase its authorized appropriation by the \$70,000 to \$945,000. House Joint Resolution 754 leaves the extension date blank and does not provide for any increase in our authorization. Senate Joint Resolution 112, as passed in the Senate, was referred in the House to this committee and is identical to H.R. 11608 except for the addition in the Senate version of some explanatory "whereas" clauses. We urgently request this subcommittee, if it sees fit, to recommend an extension until September 1, 1970, and the purely technical \$70,000 increase in authorization. With this extension and increase the Commission hopes to be able to complete the important and difficult assignment that the Congress has given us.

Thank you.

(Mr. Smith's prepared statement follows:)

STATEMENT OF RICHARD B. SMITH, COMMISSIONER, SECURITIES AND EXCHANGE COMMISSION

I appear before this Subcommittee today to testify on behalf of the Commission in support of H.R. 11608, House Joint Resolution 754 and Senate Joint Resolution 112. The bill and both resolutions would extend the reporting date for the Commission's Institutional Investor Study. The Study is currently carrying out the Congress' direction to examine the purchase, sale and holding of securities by institutions such as banks, mutual funds, insurance companies, pension funds, college endowments and foundations.

I have been assigned by the Commission to oversee the progress of the Study. It is particularly appropriate that my first congressional appearance in this capacity should be before this distinguished Subcommittee. As you know, Public Law 90-438 which created the Study, was first proposed on this side of the Congress by Chairman Moss and Representative Keith. They were among the first to see the need for examining this important subject in depth. Their role in the eventual passage of the authorizing legislation entitles them to further claims of paternity.

Public Law 90-438 requires the Commission to report the results of the Study to Congress by September 1, 1969, and authorizes an appropriation of \$875,000. At the very outset the full Committee recognized, as did the committee of the other body, "that this is both a tight time schedule and a limited sum of money for a study of the importance and magnitude that is contemplated. . . ."¹ The time required for staffing and starting the Study made it impossible to complete the assignment by the specified reporting date. On June 2nd the Senate voted an extension until September 1, 1970.² The Commission hopes that this Subcommittee will recommend similar action. We are not however, planning to request any more money from the Congress than was originally authorized.

Before I explain in detail why this extension is so necessary, I should like to report to you on the present status of the Study and the current context in which it is being conducted.

BACKGROUND

Last year, when this Subcommittee was considering whether to authorize the Study, institutions already owned or administered a substantial portion of all stock outstanding in American corporations. These holdings had been collected at a dramatic rate. In the decade from 1957 to 1967, private noninsured pension funds, investment companies, insurance companies, banks (for their own accounts), state and local trust funds and fraternal organizations, all of which already furnish some statistics on a regular basis,³ increased their stockholdings from \$29½ billion to almost \$131 billion, or from 10.3 to 18.5 percent of all stock then outstanding.⁴ The increase during this period in all other institutional stockholdings, including the portfolios of personal and common trust funds, college endowments and foundations, was estimated to be from over \$35½ billion to about \$100 billion, or from about 12 to about 14 percent of the total stock outstanding. Thus, when the Study was authorized, institutions were thought to own almost one-third of all outstanding stock, as compared with 23 percent in 1957.

As a result of more aggressive investment policies and new trading patterns by institutions the increase in their stockholdings over that decade was accompanied by even greater changes in the volume of institutional purchases and sales. One measure of these changes is the portion of the institutions' stockholdings that is traded during the course of a year. From 1957 to 1967 the annual turnover rate for private noninsured pension funds had gone from 3.8 to 13.1 percent; for mutual funds, from 13.9 to 38.7 percent; for life insurance companies, from 10.6 to 12.7 percent and for property and casualty insurance companies, from 5.9 to 7.0

¹ H.R. Rep. No. 16656, 90th Cong., 2d sess. (1968) ("House report"), p. 4; S. Rep. No. 1237, 90th Cong., 2d sess. (1968) ("Senate report"), p. 4.

² S.J. Res. 112, passed June 2, 1969.

³ Figures are no longer available for fraternal organizations.

⁴ Due to subsequent revisions in available data these and some of the other figures for 1957 to 1967 differ slightly from those previously given to the Congress.

percent.⁵ The overall turnover rate for these institutions went from 8.1 percent to 21.9 percent. The size of institutional transactions had also increased. As one indication of this, from the fourth quarter of 1964 to the first quarter of 1968, transactions in blocks of over 10,000 shares on the New York Stock Exchange had leaped from 399 to 1991, a fivefold increase.

The comparative figures that are available for the year 1968 and for early 1969 show that there has been no slackening in the pace of institutionalization since the Study was authorized in the summer of 1968. By the end of 1968, institutional stockholdings had risen to almost \$258 billion, or 34 percent of the total outstanding. And we believe that all of our figures on institutional holdings are substantially understated. The overall turnover rate in 1968 for the institutions previously mentioned was up to 25.2 percent from 21.9 percent in 1967. The Commission has recently developed a new measure called the activity rate, which we consider a better indication of market impact than turnover rate.⁶ The activity rate for these institutions was 28.8 percent for 1968, as compared with 25.7 percent in 1967. In the first quarter of 1969 it was 30.3 percent. Finally, in the first quarter of 1969 there were 3,490 transactions in blocks of over 10,000 shares on the New York Stock Exchange (despite the shortened trading hours), as compared to 1,991 in the first quarter of 1968. Certainly the need for data and an understanding of institutionalization and its effects continues to be at least as great today as it was when the Congress authorized the Institutional Investor Study last year.

STUDY DESIGN

Public Law 90-438 directs the Commission to study "the purchase, sale, and holding of securities by institutional investors of all types . . . in order to determine the effect of such purchases, sales, and holdings upon (A) the maintenance of fair and orderly securities markets, (B) the stability of such markets, both in general and for individual securities, (C) the interests of the issuers of such securities, and (D) the interests of the public. . . ."

In designing a Study to meet this broad directive we have divided the subject matter into five sections. Three major sections deal with (1) the impacts of institutionalization on the securities markets and securities industry, (2) the relationships between institutional investors and the companies whose securities are held in their portfolios and (3) the structures and investment operations of the institutions themselves. The two other sections deal with (4) savings flows to institutions and their aggregate investment holdings and (5) continuing needs for the regular reporting of data about institutional investing.

1. Markets

As indicated in the authorizing legislation itself, the Congress' first concern was with the impacts of institutionalization on the securities markets. Consequently, we are devoting about 40 percent of our resources to the markets section of the Study. One major project will ascertain the extent to which a number of institutions buy or sell the same security at the same time—what we call parallel trading—and the sources and price impacts of whatever parallel trading that we may find. In another major project we shall apply a microscopic analysis to a number of individual position changes by institutions to discover relationships between the size of the position change, the characteristics of the security and institution involved and the manner in which the position change is effected, on the one hand, and the market impact of that position change, on the other. We may also have a number of smaller projects dealing with the price impacts of institutional trading.

Institutionalization may affect not only the market prices of securities but also the very structure of the securities markets and the securities industry that services them. Therefore, we shall also examine the extent to which and reasons why institutions use particular markets and affect market structure in particular ways. Institutional demand for the services offered by the securities industry, such as agency execution, dealer transactions, research and clearance, and the industry's organization to supply those services will also be examined. In this project the Study will look at such matters as the distribution of brokerage, the operation of block positioning and the magnitude and application of the industry's capital.

⁵ The annual turnover rate of an institution's portfolio is the lesser dollar amount of its annual purchases or sales of stock divided by the average of the market values of its stockholdings at the beginning and end of the year.

⁶ The annual activity rate of an institution's portfolio is the dollar average of its total purchases and sales divided by the average of the market values of its stockholdings at the beginning and end of the year.

The policy implications of the markets section are among the most important in the entire Study. Our market impact studies may show a need to consider changes in trading practices or market structure to accommodate a general securities system in which both institutions and individuals participate; or, conversely, these studies may show that detrimental impacts are so insignificant as to present no problem. Throughout this section of the Study we shall consider how individual investors are affected by institutional activity, and how they are likely to be affected by continuation of present trends and by introduction of proposed innovations. We have no preconceptions in our markets section—or in any other section of the Study. Until the data have been collected and analyzed, I can only speak in terms of possibilities.

2. *Portfolio companies*

Public Law 90-438 also expressly directs the Commission to assess the relationship between institutional investors and the corporations whose securities are held in their portfolios. We are devoting about 20 percent of our total resources to the portfolio companies section of the Study. First we shall compile data about the concentration of aggregate and individual institutional stockholdings in particular portfolio companies and industry groups. We shall look at institutional purchases and sales of portfolio companies' securities, the manner in which they vote or refrain from voting their holdings and their consultations with management and others. One important project in this section will examine a number of representative transfers of corporate control in detail, because they appear to highlight the various questions that may arise in this area. Although we shall study transfers of control in more depth than some other matters, data will also be gathered about institutional involvement in less dramatic questions concerning their portfolio companies, such as dividends, management compensation and financial structure. In response to general instructions in the committee reports and a specific request by Representative Stuckey at the original hearing,⁷ this portion of the Study will also examine the effects of institutionalization upon the financing of American business. We shall analyze institutional preferences for different types of securities, particularly debt versus equity, and the effects of these preferences upon both the ability of portfolio companies to finance themselves and the manner in which they do so. In addition, the Study will take a close look at institutional participation in new issues of securities.

This section of the Study also has important policy implications. The extent to which institutional investors should become involved in the affairs of their portfolio companies has been a subject of much debate. After gathering and analyzing the pertinent data and soliciting the views of many interested persons, we hope that the Study will be in a position to express some judgment on this issue and to make whatever recommendations may be desirable. Examples of other areas for possible recommendations about increased, relaxed or continued regulation are holding periods for institutional investments, concentration of institutional holdings in particular portfolio companies or groups of companies, types of securities held by institutions and allocation of new issues to institutions. Any of the inquiries in this section could also lead to recommendations about the disclosure of existing practices.

3. *Institutions*

When Chairman Moss and Representative Keith first introduced our authorizing legislation, specific reference was made to one aspect of the investment behavior of the institutions themselves: their "apparent increase in short-term and, perhaps, speculative trading. . . ."⁸ To examine the extent and causes of these investment techniques on the part of the institutions, and to project likely future development of such techniques and the future growth of institutionalization generally, it is necessary to look at the institutions themselves. The other side of the Congress expressly directed the Commission to examine these matters,⁹ and former Chairman Cohen, testifying to the Congress, expressed the Commission's strong view that such examination is an essential element of the Study.¹⁰ Consequently we are devoting about 30 per cent of the Study's resources to the institutions.

⁷ House Report 3; Senate Report 2; Hearing Before the Subcommittee on Commerce and Finance of the House Committee on Interstate and Foreign Commerce on H.R. 7696 and H.J. Res. 946, 90th Cong., 2d sess. (1968) ("House Hearing"), p. 26.

⁸ 113 Cong. Rec. 34822 (Dec. 4, 1967) (remarks of Rep. Keith).

⁹ Senate Report 2, 4.

¹⁰ House Hearing 19, 20; Hearing Before the Senate Committee on Banking and Currency on S. 1299 and S.J. Res. 160, 90th Cong., 2d sess. (1968) ("Senate Hearing"), pp. 15, 17.

In the institutions section of the Study we shall gather data over various time periods about the internal organization of the different classes of investment management entities, the sizes and structures of the funds that they manage, the existing legal environments within which they operate, the characteristics of the securities in their portfolios (including their riskiness), their investment policies, their trading activities and other determinants of their growth rates. It seems likely that in our competitive economy new money will tend to flow to money managers who not only offer the types of management desired by individual investors but also do the most responsive jobs with respect to those particular types. In projecting the future growth of particular classes of institutions, their demand for equity securities and the frequency with which particular forms of investment behavior occur, it is necessary to measure the distribution of flows of new money. Hence, we shall also attempt to ascertain the effect of various characteristics of institutional behavior upon their performance and relate our findings in institutional growth. The institutions part of the Study will look primarily at each of the various classes of institutional managers. In some cases, however, the lines between these classes can become blurred, as institutions in one class become affiliated with institutions in another, and as institutions become affiliated in various ways with the securities industry. Moreover, in response to the growth of institutions new combinations of financial services are occurring within the securities industry. Consequently, we are devoting a special project to analyzing the various forms these integrating trends appear to be taking and their effects on the provision of various financial services.

As I have already indicated, the principal purpose of the institutions part of the Study is to understand the existing phenomenon of institutionalization and to project its future course. We may find, however, that certain basic characteristics of institutionalization place undue pressures upon the securities markets or portfolio companies that cannot be isolated and dealt with separately. Also, the individual investors who entrust their resources to institutional money managers must be considered, and the Study may lead to recommendations designed to protect their interests. I wish to emphasize again, however, that we have no preconceptions on the advisability of either increased or decreased regulation in this or any other area.

4. Flow of funds

The markets, portfolio companies and institutional sections of the Study account for approximately 90 percent of our resources. The Congress also directed the Study to evaluate the impact of institutionalization upon the amount and nature of savings in our economy and the allocation of the capital so generated.¹¹ We are devoting approximately 5 percent of our resources to ascertain the savings flows to financial institutions and the asset holdings into which they have been put. Existing national balance sheet, income statement and flow of funds accounts will be extended to segregate institutional data in a more meaningful fashion. An attempt will be made to separate new money flows from changes in the value of existing investments. Because the National Bureau of Economic Research, a non-profit research organization of high repute, was instrumental in developing the data that we intend to refine and already employs many of the economists who are knowledgeable in this area, this job has been contracted to the Bureau. Although this section of the Study will not have for us any policy implications by itself, it will enable us to explain historical trends in the demand for and supply of equity financing so that we may judge their likely future course and thereby project aggregate future trends in institutionalization.

5. Continuous reporting

An important objective of the Study will be recommendations for the reporting of information about institutional investing on a continuing basis. This is important so that the gap in information, which in part necessitated this study, will be met without need for one-shot data collection efforts in the future.¹² This portion of the Study will survey existing reporting patterns by institutional investors and securities firms with an eye toward determining how this information might better serve the needs of government statistical programs, regulatory bodies and public investors. An attempt will be made to identify gaps in existing information, as well as to improve the comparability, availability and thereby the usefulness of current or proposed reporting systems. Some consideration will be given to technological possibilities in information collection, storage, retrieval and

¹¹ House Report 3, 4; Senate Report 2, 3.

¹² See House Hearing 18-19; Senate Hearing 15.

dissemination. Our recommendations in this area will constitute the fifth section of the Study. Together with general conclusions and recommendations not limited to any particular section, it will account for the balance of our resources (5 percent).

DATA COLLECTION

I am sure that it has been apparent to you, as I have described our study design section by section, that a large information input will be required. Some of this information will be of the "soft" type that we can obtain in interviews with knowledgeable persons. But much of it will be "hard" data that can only be obtained from existing reports and publications or from questionnaires to the institutions, securities firms and others. For example, in order to ascertain the magnitude and characteristics of institutional stockholdings, we must first determine what those holdings are. In order to ascertain the extent to which parallel trading may exist among institutions, we must obtain details about institutional transactions on at least a monthly basis. In order to measure market impacts, some daily transaction information is necessary. The Congress directed the Commission to conduct an economic study rather than an enforcement type of investigation.¹³ and in Public Law 90-438 it expressly directed us to study "the purchase, sale, and holding of securities by institutional investors. . . ." The kind of hard data that we shall request are necessary for us to comply with those directions.

In authorizing the Study, the Congress recognized that much of the necessary data about institutional investing is not presently available for many institutions.¹⁴ Indeed, the collection of that data was seen as one of the primary purposes of the Study.¹⁵ In our preliminary discussions with the institutions we have further found that, although they have the necessary records, the information is neither in a form easily susceptible for reporting to us, nor can it inexpensively be converted to such a form. As a result, the institutions and others may have to incur substantial costs in order to provide the Study with this information. We are making every effort to keep these costs to the barest minimum consistent with our responsibility to make sound conclusions about the difficult, important and far-reaching questions involved in this Study. All of the institutions have promised the Congress that they will co-operate with the Study and provide it with assistance and support.¹⁶ In the words of the full Committee, "It should be pointed out that this (authorized appropriation of \$875,000) is not expected to be the entire cost of the study but only that of the cost to the Commission. It is understood that the financial community and institutional investors have given assurances of support and contributing data collecting and analyses which lighten the Commission's burden in this regard."¹⁷

A data intensive study is costly not only for those who provide the data. Although modern data processing techniques make possible the digestion of vast amounts of data, they are quite expensive. Since the Commission had never before conducted a data-intensive economic study using electronic data processing facilities to meet a very tight time schedule, we did not focus on the magnitude of the processing costs when we recommended an authorized appropriation for the Study. Moreover, as former Chairman Cohen testified before this Subcommittee, our recommendation in this regard was based upon the assurances of assistance that had been received from the various institutional organizations.¹⁸ Consequently, the proposed budget that we furnished this Subcommittee on January 17, 1968, provided for only one computer programmer and three key punch operators but made no other provision for data processing costs. We could not begin to digest the data required solely with these resources.

Pursuant to the full Committee's statement that our authorized appropriation was only to be the cost of the Study to the Commission but not its full cost and the comments on both sides of the Congress about the co-operation and support to be expected from the institutions in collecting and analyzing data (as well as from other government agencies¹⁹), we have attempted to deal with this problem in three ways. First, we plan to reduce the digestion burden by sampling institutions, holdings and transactions rather than covering the whole universe of possible data. This, of course, makes it essential that every institution within the

¹³ House Report 4; Senate Report 3.

¹⁴ H. Rept. 3; S. Rept. 2-3.

¹⁵ H. Rept. 3; S. Rept. 3.

¹⁶ H. Rept. 4-5; S. Rept. 4-5.

¹⁷ House Hearing 15.

¹⁸ House Hearing 15.

¹⁹ House Report 5; 113 Cong. Rec. 34822 (Dec. 4, 1967) (remarks of Rep. Keith).

sample respond to our questionnaires. Second, we have made arrangements with the Federal Reserve Board, the Federal Deposit Insurance Corporation and the National Association of Securities Dealers to supplement our own data processing capabilities by providing personnel, computer time and other resources, including reimbursements. Third, we are requesting institutions to provide us with the answers to our questionnaires on punched cards or magnetic tape. The institutions have recognized that it is vital to the Study to furnish the data to us in this manner, and we trust that this form of co-operation will be forthcoming. The more manageable the body of data we have, of course, the sounder our conclusions are likely to be.

OTHER ASSISTANCE

While I am on the subject of outside assistance, I should also mention the very fine co-operation that we are receiving from government agencies and industry groups in other areas. The Federal Reserve Board and the Federal Deposit Insurance Corporation are interested in the entire Study and particularly in the work being done by the National Bureau of Economic Research and our study of the banks as institutional investors. Both are providing us with substantial support in these areas. We have been in touch with the Department of Labor with respect to possible assistance in our examination of pension and welfare funds and with the New York Stock Exchange about a possible inquiry into the motivations of individual investors. As we go along, additional arrangements of this kind may also be possible. Indeed, assistance from such organizations as these probably is essential to our ability to accomplish this ambitious project within the limits of the time and resources available, as the Congress foresaw.

ADVISORY COMMITTEE

Before I turn to the Study's present status and the reasons why we need an extension of time until September 1, 1970, you may want to hear about our advisory committee. Public Law 90-438 directs the Commission to "consult with an advisory committee which it shall establish for the purpose of advising and consulting with the Commission on a regular basis on matters coming within the purview of such study." We have established an advisory committee under the chairmanship of John Whitehead, who is also the chairman of the research committee of the Investment Bankers Association. Our committee was selected on the basis of suggestions from the Congress, institutional groups, the securities industry and others. Its membership includes expertise from the banks, the investment companies, the insurance companies, the stock exchanges and various kinds of securities firms. Among its members are Milton Cohen, who was the director of the Commission's Special Study of Securities Markets, Bryon Woodside, a former member of the Commission (my predecessor), and Lewis Odom, for many years chief of staff to the Senate Committee on Banking and Currency. I have furnished the Subcommittee with complete lists of the members of the advisory committee and their alternates for inclusion in the record.

The Study has met with the entire advisory committee on a monthly basis to report on its progress and solicit comments and suggestions. We also have worked with the committee members individually and with smaller technical advisory subcommittees of operations and records specialists from each of the industries studied. All these men have been most helpful in furnishing us with information, putting us in touch with persons within their respective industries and assisting us in other ways. The conclusions of the Study will, of course, be those of the Commission, not the advisory committee, although the committee or any member will have the opportunity to express any different viewpoints; but the committee has been extremely helpful to us, and we expect it to continue to be so.

I hope that my statement so far has been sufficient to describe the nature of our Study to you. I shall now speak more directly to the pending resolution and bill.

PRESENT STATUS OF THE STUDY

Public Law 90-438 was signed by the President on July 29, 1968. Funds were appropriated to commence the Study on October 21, 1968, and apportioned by the Bureau of the Budget on October 31, 1968.

To organize and staff the Study the Commission promptly consulted industry representatives and began discussions with a number of highly respected professional economists during the months of November and December 1968. In December 1968 the Commission was successful in securing the services of Dr. Donald Farrar, associate professor of finance at Columbia University, to direct

the Study. To assemble his professional staff it was necessary to recruit personnel largely from outside the Commission. Only three professionals, an economist and two lawyers, have been drawn from the regular staff of the Commission. During January and February 1969 Dr. Farrar spent the bulk of his time arranging for the collaboration of attorneys and professional economists in the Study. By February most of the staff had been selected. Because most of them came from university positions and had academic commitments, however, the bulk of the staff could not be with us full time until late May. We now are at full strength, but our last senior staff member did not join us until mid-June.

Beginning in March of this year the staff members who were then on board began to design the Study. At the suggestion of the advisory committee various members of the staff conducted approximately 25 preliminary interviews with representatives of industry to learn more about their operations and solicit their suggestions. The staff also canvassed other government agencies to ascertain the extent to which records of pertinent information already existed. We then completed the design of the Study that I have previously described to you.

The Study is presently in the process of preparing, clearing and distributing the questionnaires that will be sent to the institutions, securities industry and other. Our first set of questionnaires on purchases, sales and holdings was mailed to the banks a few days ago. The remainder of our questionnaires are now in various stages of completion. We have found this to be a very time-consuming process, particularly since, as I mentioned earlier, many of the institutions do not keep their records in forms that permit easy retrieval of the necessary data. For this reason we decided to consult with representatives of the proposed recipients of the questionnaires at an early stage in order to make the job of responding to the questionnaires as easy as possible for them. Through these consultations the staff is working out problems regarding both the burden of data production and the confidentiality of the information provided, thereby facilitating review of the questionnaires by the Bureau of the Budget.

NEED FOR AN EXTENSION OF TIME UNTIL SEPTEMBER 1, 1970

Even by the most optimistic estimate we cannot have the last of our questionnaires out until later this year. To allow the recipients of the questionnaires sufficient time to assemble and report the required information, it is unlikely that we can have all of the questionnaire returns in hand prior to early 1970. Although we shall attempt to analyze questionnaire returns as they are received, it is doubtful whether the Study's staff will be in a position to complete a comprehensive analysis of all that information before late spring of 1970. In the meantime, of course, the staff will be conducting interviews and analyzing existing data that will supplement and be supplemented by the questionnaire returns. The National Bureau of Economic Research will not be able to complete its work for the Study until June 15, 1970. We hope that the results of all these analyses will be available to the Commission for its consideration in time to prepare a full report during the summer of 1970, but even this time schedule will require extraordinary efforts by the Study's staff and the Commission.

The data and analyses for the entire Study are closely intertwined. With the possible exception of the fifth part of the Study, dealing with recommendations for regular reporting requirements, no part can be entirely written until the data are collected and analyzed. Consequently, it is simply not possible for the Commission to complete the Study prior to September 1, 1970, without placing undue burdens on the recipients of the questionnaires or eliminating essential aspects of the analysis.

Because of the time required for staffing, the Study did not spend \$70,000 of its fiscal 1969 appropriation, and this sum was returned to the general funds of the treasury. As you know, this sum of \$70,000 counts against our authorization even though we did not spend it. We are thus requesting an additional authorization of \$70,000 so that we shall be able to spend the full \$875,000 initially authorized by the Congress. This request is merely a technical one and will not result in our spending any more than our original authorization. I have submitted for the record a statement showing the exact calculations involved.

H.R. 11608 would grant the Study an extension until September 1, 1970, and would increase its authorized appropriation to \$945,000. These are the same changes that have already been approved by the Senate. House Joint Resolution 754 leaves the extension date blank and does not provide for any increase in our authorization. We urgently request this Subcommittee to recommend an extension until September 1, 1970, and the technical increase in authorization of \$70,000.

With this extension and increase we hope to be able to complete the important and difficult assignment that the Congress has given us.

Thank you.

Mr. Moss. Thank you, Mr. Smith.

Do you believe that the study plan has now been sufficiently developed and a schedule worked out which will assure this committee that there would be no possibility of delay beyond September 1, 1970?

Mr. SMITH. I believe we can make such an assurance. Mr. Chairman. We have another very pragmatic reason why we will have to do it in that fashion. The bulk of our staff, as I have indicated in my testimony, comes from universities, and they are scheduled to return to those universities in the fall. We intend to complete it by September 1, 1970.

Mr. Moss. I was interested, in your discussion of the four principal avenues being explored by the study groups, as to what the groups are doing to pull these studies together in order that the Commission may reach conclusions on the problems giving rise to the study.

I would enumerate some of those as the effect on markets of institutionalization, whether such markets can continue as auction markets, whether the specialist system can handle the new problems, the effect of institutions on their portfolio companies, the effect of institutions on the economy, and whether institutional buying and selling is unduly manipulative.

Mr. SMITH. Mr. Chairman, a number of our specific study projects are designed to provide some insights into those basic questions that you have enumerated, and are within the contemplation of what we will address ourselves to in the study and hope to provide some understanding to, and upon which we can base recommendations to the Congress.

Mr. Moss. I wonder if you could give us some greater detail on how the advisory group has functioned, its membership, meetings, and the nature of its advice. I would also be interested in how the selections of the members of that advisory group were made.

Mr. SMITH. Yes, Mr. Chairman.

In my longer statement, I do provide some detail about the Advisory Committee. That occurs on page 15 and through 16.

There has also been submitted to the committee a list of persons who are members of the Advisory Committee, substantially all of whom have alternates, and we have given you a list of the alternates.

The Advisory Committee was selected by the Commission toward the end of last year, the beginning of this year. Our intention was to place on the Advisory Committee people with developed expertise in various aspects of institutional activity in the markets. We tried to make as good a distribution as we could among institutional investors and market organizations. We have some members of the committee who have a more generalized interest in this area. The committee selected its own chairman. That chairman is Mr. John Whitehead, who is also chairman of the Research Committee of the Investment Bankers Association.

The names of the people who were appointed by the Commission to the Advisory Committee in January, I believe, of this year, were suggested to us by various industry organizations, institutional organizations, the Congress and various other sources.

We have met with the Advisory Committee on roughly a monthly basis, at which time they are apprised of the work of the staff and the staff solicits their viewpoints on problems that it is encountering. The members of the staff have also dealt with individual members of the Advisory Committee. They have been extremely helpful to us in reaching the experts within various segments of the operations of the markets and institutions so that we don't waste time canvassing to find people with an expert knowledge in particular areas concerned in the study.

Mr. Moss. Other than yourself as the member of the Commission having immediate responsibility for directing the study, how close is the consultation between the Commission and the Advisory Committee?

Mr. SMITH. The Advisory Committee has met on one or two occasions with the full Commission. They have not been extensive meetings. Each member of the Advisory Committee is informed that he can at any point discuss any matter of interest or concern to him with me or other members of the Commission.

At this point, the study's primary effort is the collection of data and the relationships with the Advisory Committee are mostly in this area at this point.

Mr. Moss. I would like to ask unanimous consent to include in the record at this point the list of members of the Institutional Investor Study Advisory Committee, and the list of alternates and the executive assistants to the Advisory Committee.

Is there objection?

Mr. STUCKEY. Will the gentleman yield?

Mr. Moss. Yes.

Mr. STUCKEY. Would it be permissible to ask for a little background or biography on each one?

Mr. Moss. Yes. Would you like to have it presented orally at this time?

Mr. STUCKEY. Just included in the record.

Mr. Moss. The record will be held at this point. Will you supply that to us?

Mr. SMITH. I will be glad to. I can do it either way, either orally or by submission.

Mr. Moss. Unless Mr. Stuckey wishes it orally, I think it would be better to supply it in writing.

(The following material was received for the record:)

MEMBERSHIP OF INSTITUTIONAL INVESTOR STUDY ADVISORY COMMITTEE

The following is background information on the members and alternate members of the Institutional Investor Study Advisory Committee:

Mr. Charles W. BUEK, President, U.S. Trust Company, 45 Wall Street, New York, New York 10005. Mr. Buek has been President of the U.S. Trust Company since 1962. He was educated at Yale University and has been with the Trust Company since his graduation in 1933. At present he serves also as President of the American Bankers Association—Trust Division; Director of the Equitable Life Assurance Society of the U.S.; Director of the General Reinsurance Corporation; member of the Investment Committee of Royal-Globe Insurance Group; President of the Board of Trustees of the National Board of the Y.M.C.A.; Trustee of New York University; Chairman of the finance committee, U.S. Olympic Committee.

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Mr. Milton COHEN, Schiff, Hardin, Waite, Dorschel and Britton, 231 South LaSalle Street, Chicago, Illinois 60604. Mr. Cohen has been with this law firm as associate and partner from 1947-61 and 1963 to date. Before that he was a member of the staff of the Securities and Exchange Commission and Director of the Public Utilities Division 1943-46. He returned to the Commission to direct the Special Study of Securities Markets in 1961-63. He was visiting professor of law at Harvard University in 1966-67, and has authored "Truth in Securities" Revisited, 79 Harvard Law Review 1340 (1966) and other articles. At present he serves also as a member of the advisory committee, Chicago Board of Trade Study of Put and Call Options; consultant to the Reporter, American Law Institute's Federal Securities Code Project (1969); member of American Law Institute; Special Counsel, Midwest Stock Exchange; and director, Manpower, Incorporated.

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Mr. Walter N. FRANK, Marcus and Company, 61 Broadway, New New York 10006. Mr. Frank has been a partner of this New York Stock Exchange specialist firm, and a member of the Exchange, since 1937. He was educated at the New York University School of Commerce and has an honorary doctorate of commercial science from Suffolk University (Boston). He has served as Governor of the New York Stock Exchange, 1959-1966; Vice Chairman of the Board of Governors, 1962-1965 and Chairman, 1965-1967. He has served also as Governor of the Association Stock Exchange Firms, 1967-1969.

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Dr. William C. FREUND, Vice President and Economist, New York Stock Exchange, 11 Wall Street, New York, N.Y. 10005. Dr. Freund has been in his present post, which has overall responsibility for the Exchange's research department, since 1967. He was educated at the College of the City of New York and has both master's and doctor's degrees from Columbia University. Before going to the Exchange, he was Chief Economist and Executive Director of Investment Research, Prudential Insurance Company of America, for nearly 15 years. He has authored several books and many articles. At present he serves also as Adjunct Professor of Finance, New York University Graduate School of Business Administration; Member, Governor's Economic Policy Council, State of New Jersey; Director, American Finance Association; Director, New York City Council on Economic Education; member, Graduate Advisory Board, Baruch School of the City University of New York; Trustee, New Jersey Council on Economic Education.

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Mr. Alfred P. JOHNSON, Vice President and Economist, Investment Company Institute, 61 Broadway, New York, New York 10006. Mr. Johnson has been with the Investment Company Institute since July 1968, serving previously as second Vice President and Economist, New York Life Insurance Company, 1963-1968; Senior Economist and Head of Finance Section, Federal Reserve Bank of Atlanta, 1958-1963; and economist, Federal Reserve Board, 1950-1958. He has a bachelor's degree from George Washington University, has a master's degree from the University of Pennsylvania and has done graduate work at American University. He lectures at New York University on money and capital markets.

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Mr. Robert M. LOEFFLER, Senior Vice President—Law, Investors Diversified Services, Inc., Eighth and Marquette, Minneapolis, Minnesota 55402. Mr. Loeffler has been with Investors Diversified Services since 1965, and a Director since 1967. He previously was an associate and partner at the law firm of Donovan Leisure Newton & Irving, New York City. He graduated from the University of Oklahoma College of Business Administration and the Harvard Law School. At present he serves also as a member of the Advisory Committee of the Chicago Board of Trade; Member of the Board of Governors and Executive Committee of Investment Company Institute; and Chairman of Federal Legislation Committee and Finance Committee of Investment Company Institute.

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Mr. Fred H. MERRILL, Chairman of the Board, Fireman's Fund Insurance Company, 3333 California Street, San Francisco, California 94120. Mr. Merrill is also Chairman of the Executive Committee and Director of the American Ex-

press Company, and Chairman of the Board of the following: The American Insurance Company, National Surety Corporation, Fireman's Fund American Life Insurance Company, American Automobile Insurance Company, Associated Indemnity Corporation, Shaw & Begg, Ltd. and Affiliated Cos., American Express Investment Management Company, Commonwealth Funds, and ITEL Corporation. He joined the Fireman's Fund in 1944 as Financial Secretary in charge of the Investment Department. He was previously assistant Vice President, Hawaiian Trust Company, Honolulu, 1941-44; with Dean Witter and Company, San Francisco, 1931-1941; and in the Investment Analysis Department, Wells Fargo Bank, 1928-1931. He graduated from Stanford University, of which he is presently Treasurer and a Trustee. He also serves as Director of Amfac, Inc. (Honolulu); American Insurance Association; Crusader Insurance Company (London); Middle South Utilities, Inc.; was director of the Federal Reserve Bank, San Francisco, 1963-65; and is a Trustee, Newhouse Foundation; Trustee, Pacific Medical Center; Trustee, United Bay Area Crusade; and Director and Treasurer, Rosenberg Foundation.

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Mr. Lewis G. ODOM, Jr., Attorney at Law, Post Office Box 521, Montgomery, Alabama 3601. Before going into the general practice of law in Montgomery earlier this year, Mr. Odom was Staff Director and General Counsel of the Senate Banking and Currency Committee for two years. He served previously as Staff Director and General Counsel, Senate Small Business Committee, 1961-66; Administrative Assistant to Senator John Sparkman, 1956-61; Chief Counsel, Senate Small Business Committee, 1955. Mr. Odom was educated at Millsaps College, Tulane University and the University of Alabama Law School. He practiced law in Gadsden, Alabama, and served also as city attorney and city recorder. He has contributed to legal and general periodicals.

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Mr. Phil E. PEARCE, President, G. H. Crawford Company, Inc., 1213 Lady Street, Columbia, South Carolina 29202. Mr. Pearce has been President of this small regional securities firm since 1932. The firm is a member of the Midwest Stock Exchange. He was previously Vice President and South Carolina state manager of the R. S. Dickson Company.

He has also served as Chairman of the Board of Governors, National Association of Securities Dealers; Chairman of the National Business Conduct Committee, National Association of Securities Dealers; member of the executive committee, Southern Group, Investment Bankers Association; Symposium Participant of the Commission of the European Communities, Brussels, 1968; contributing editor, Stock Market Hand Book. He presently serves also as a Director of the Inverness Capital Corporation.

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Mr. George L. SHINN, Executive Vice President, Merrill Lynch, Pierce, Fenner and Smith, 70 Pine Street, New York, New York 10005. Mr. Shinn has been with Merrill Lynch since 1946, starting as an account executive in their Boston office, and serving as Director of the Institutional and Equities Sales Division in 1968. He is a member of the firm's executive committee and Board of Directors. He was educated at Amherst College, of which he is now a Trustee. He serves also as a member of the Business Council of the Graduate School of the University of Chicago; Member of the National Industrial Conference Board; Member of the Board of Governors of the Association of Stock Exchange Firms; and Trustee of Kent Place School, Summit, New Jersey.

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Mr. Davidson SOMMERS, Senior Vice President and General Counsel, The Equitable Life Assurance Society of the U.S., 1285 Avenue of the Americas, New York, New York 10019. Mr. Sommers has been with The Equitable since 1960, and a Director since 1961. He previously was with the legal department of the World Bank from 1946, becoming its General Counsel in 1949, and Vice President in 1956. From 1956 to 1958 he was General Counsel of the International Finance Corporation, a World Bank affiliate, in addition to his duties with the Bank. In 1945 he was special assistant to the Secretary of War. He was educated at Harvard and Harvard Law School. He practiced law in New York City with the firm of Parker and Garrison (later, Parker Finley and Benjamin). In 1938 he became Assistant Corporation Counsel of the City of New York, returning to

general law practice the following year as a member of the firm of Parker and Duryee. At present he serves also as a member of the Joint Legislative Committee of the Life Insurance Association of America and the Chairman of its subcommittee on segregated accounts and variable annuities; and as President and Director of the Eugene and Agnes E. Meyer Foundation, Washington, D.C.

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Mr. John C. WHITEHEAD, Goldman, Sachs and Company, 55 Broad Street, New York, New York 10004. Mr. Whitehead joined Goldman, Sachs in 1947 and has been a partner since 1955. He was educated at Haverford College and Harvard Graduate School of Business Administration. At present he serves also as Director of: American Bilrite Rubber Co., Inc.; American District Telegraph Company; Crompton Co.; Crompton & Knowles Corporation; Data-Control Systems, Inc.; Kelsey-Hayes Corp.; Morton-Norwich Products, Inc.; Treasurer and Director, International Rescue Committee; and as Trustee of: Haverford College; Pingry School, Elizabeth, N.J.; Kimberley School, Montclair, N.J.; Councilman, Essex Fells, New Jersey; Chairman, Research Committee, Investment Bankers Association. He is a Former Governor, Association of Stock Exchange Firms.

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Honorable Byron D. WOODSIDE, Haymarket, Virginia 22069. Commissioner Woodside was a member of the Securities and Exchange Commission from 1960-67. He holds degrees of B.S. in economics from the University of Pennsylvania, A.M. degree from George Washington University, and LL. B. from Temple University. In 1929 he joined the staff of the Federal Trade Commission and upon enactment of the Securities Act of 1933, was assigned to the Commission's Securities Division, transferring to the Securities and Exchange Commission upon its establishment in 1934. In 1940 he became Assistant Director and in 1952, Director of the Division of Corporation Finance (as it is now called). For 14 months commencing in May 1948, he was on loan to the Department of the Army and assigned to duty in Japan as a member of a five-man board which reviewed reorganization plans of Japanese companies under the Occupation's decartelization program; and beginning in December 1950, he served 17 months with the National Security Resources Board and later with the Defense Production Administration as Assistant Deputy Administrator for Resources Expansion.

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ALTERNATE MEMBERS

For Mr. Charles W. Buek: Mr. Robert MALLER, Senior Vice President, U.S. Trust Company, 45 Wall Street, New York, New York 10005. Mr. Maller has been with the U.S. Trust Company since 1956, becoming a Senior Vice President this year. He serves also as a member (and past president, 1968-69) of the Board of Governors, Municipal Forum of New York; Trustee and Past President (1966-69) Huntington (New York), Union Free School District Number 3 Board of Education; Member, Society of Municipal Analysts. He has a B.S. degree and an M.B.A. degree from New York University. He is the author of Financing Public Education (1959),

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For Mr. Milton Cohen: Mr. Scott DAVIS, Ralph W. Davis & Company, 120 South LaSalle Street, Chicago, Illinois 60603. Mr. Davis' firm are odd-lot specialists on the Midwest Stock Exchange; he has been a partner with the firm since 1953, previously having been with Hornblower & Weeks, 1946-47; an independent member of the Chicago Stock Exchange, 1947-50; and partner, Paul H. Davis & Co., 1951-53. He has been a member of the Midwest Stock Exchange since 1950 and the New York Stock Exchange since 1960. He served as Governor, Midwest Stock Exchange 1956-62 and 1964; Chairman, Midwest Stock Exchange Executive Committee 1965-66; Chairman, Board of Governors, Midwest Stock Exchange 1967-68; director, MSE Service Corporation; Vice Chairman, Chicago Association of Stock Exchange Firms 1963 and Chairman, 1964-66; and Governor, Investment Bankers Association, 1967. He was educated at Amherst College and Northwestern University.

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For Mr. Walter N. Frank: Mr. Donald STONE, E. H. Stern & Co., 20 Broad Street, New York, New York 10005. Mr. Stone became one of the two senior partners of his firm this year. He has been with this New York Stock Exchange member firm and a partner since April 1955; his own work is entirely as a

specialist, but the firm also does commission business for other brokers, arbitrages, and trades for its own account. Mr. Stone graduated from Williams College in 1948. He was a bond trader with Asiel and Company, New York 1948-50. He became a member of the Exchange in 1950 and was an independent broker. He served on such NYSE Committees as the Arbitration Committee and the Specialists Automation Committee.

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For Dr. William C. Freund: Mr. Donald L. CALVIN, Vice President for Civil and Governmental Affairs, New York Stock Exchange, Eleven Wall Street, New York, New York 10005. Mr. Donald L. Calvin joined the Executive staff in 1964 as Executive Assistant in Civic and Governmental Affairs. He entered the securities industry in 1957 as an attorney for the Securities Division of the Office of Secretary of the State of Illinois and in 1959 was appointed Securities Commissioner for the State. In 1962 he joined A. C. Allyn and Co., Chicago, a NYSE member firm. He has served as chairman of the American Bar Association's Committee on State Regulation of Securities, and is a frequent contributor to publications in the fields of law and securities. He attended Eastern Illinois University and received his law degree at the University of Illinois in 1956.

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For Mr. Robert M. Loeffler: Mr. Jerome H. GROSSMAN, Assistant to Sr. Vice President—Law, Investors Diversified Services, Inc., Eighth & Marquette, Minneapolis, Minnesota 55402. Mr. Grossman has been with Investors Diversified Services in his present post since 1968. Previously, he was with the Securities and Exchange Commission as legal assistant to Chairman Cohen in 1967 and 1968; he had been on the Commission staff since 1964. He graduated from Columbia College in 1961 and Harvard Law School in 1964. Mr. Grossman serves also as alternate member of the advisory committee of the Chicago Board of Trade.

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For Mr. Fred H. Merrill: Mr. Francis VAN ORMAN, Senior Vice President, Fireman's Fund Insurance Co., 15 Washington Street, Newark, New Jersey. Mr. Francis Van Orman has been Vice President and Director of the Fireman's Fund Insurance Company since 1963. He had previously been with the American Auto Insurance Company, starting in 1930; this company merged into the Fireman's. Mr. Van Orman was educated at Dartmouth and New York University Law School. He serves also as Chairman of the Law and Legislation Committee of the American Insurance Association.

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For Mr. Lewis G. Odom, Jr.: Dr. M. Cecil MACKEY, Vice President for Administration, Florida State University, University Hospital—4th Floor, Tallahassee, Florida 32306. Before going to Florida State this past June, Dr. Mackey was Assistant Secretary of Policy Development, Department of Transportation, 1967-69. He was a visiting professor at the University of Maryland, College of Business and Public Administration in the spring of this year. Dr. Mackey received a bachelor's degree from the University of Alabama in 1949, a master's degree in economics from Alabama in 1953, a doctorate in economics from the University of Illinois in 1955, a law degree from the University of Alabama in 1958, and did graduate law study at Harvard Law School in 1958-59. He was Assistant Professor of Economics at the University of Illinois in 1955-56, Associate Professor of Economics at the U.S. Air Force Academy, 1956-57, and Assistant Professor of Law at the University of Alabama in 1959-62. He served as Assistant Counsel to the Subcommittee on Antitrust and Monopolies, United States Senate, 1962-63; Director of the Office of Policy Development, Federal Aviation Administration, 1963-65; and Director, Office of Transportation Policy, U.S. Department of Commerce, 1965-67.

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For Mr. Phil E. Pearce: Mr. Ralph E. BURGESS, Chief Economist, National Association of Securities Dealers, Inc., 888 Seventeenth Street, N.W., Washington, D.C. 20006. Mr. Ralph E. Burgess has been with the NASD since 1967, serving previously as Chief of the Office of Policy Research at the Securities and Exchange Commission, 1964-66, and as Professor of Economics at the University of Bridgeport. Mr. Burgess has a bachelor's degree from Williams College and a master's degree in economics from George Washington University.

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For Mr. George L. Shinn: Dr. A. Gary SHILLING, Manager, Economics Department, Merrill Lynch, Pierce, Fenner & Smith, 70 Pine Street, New York, New York 10005. Dr. Shilling has been with Merrill Lynch since 1937. He was previously with the Economics Department of Standard Oil of New Jersey. He graduated from Amherst College in 1960, and received a masters degree from Stanford University in 1962 and his doctorate from Stanford in 1965.

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For Mr. Davidson Sommers: Mr. Wilbur J. STRAUSS, Vice President in Charge of Equity Investment Activities, The Equitable Life Assurance Society of the U.S., 1285 Avenue of the Americas, New York, New York 10019. Mr. Strauss has been with The Equitable since 1964, having responsibility for all common stock activity within the Security Investment Department. Mr. Strauss has devoted his entire business career to the field of investment, initially with City Bank Farmers Trust Company (now First National City Bank of New York), later with the investment banking firm of Harriman Ripley & Co., Inc. and then with Lord Abbett and Company, where he was a partner of this investment management firm and served as Vice President of its two sponsored open-end mutual funds. Most recently, he had been Vice President and Director of Research of Lehman Corporation. He studied banking, economics and investment at the American Institute of Banking and as a special student at the Graduate School of Business Administration, New York University.

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For Mr. John C. Whitehead, Chairman: Mr. Alexander TOMLINSON, Morgan Stanley & Co., 140 Broadway, New York, New York 10005. Mr. Tomlinson has been with Morgan Stanley since 1950 and a partner since 1958; throughout that time he has been engaged in matters of corporate finance. He serves also as a member of the Research Committee of the Investment Bankers Association of America; a Director of Beekman Downtown Hospital; and Trustee of the Village of Cove Neck, New York. He was educated at Haverford College, the London School of Economics, and the Harvard Business School.

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Executive Assistant to the Advisory Committee: Mr. William T. DAILEY, Jr., Goldman, Sachs & Co., 55 Broad Street, New York, New York 10004. Mr. Dailey has been in the Institutional Sales Department at Goldman Sachs since 1968. Previously, he was Assistant to the Vice President for Sales at Texaco, 1963-68. He graduated from Georgetown University in 1962 and received a master's in Business Administration from New York Graduate School of Business, 1967.

Mr. Moss. I notice that all but a very few of the Institutional Investor Study staff are professional economists. I believe only two of the staff were drawn from the permanent staff of the Commission.

This is in rather sharp contrast to the special study, where most of the staff members were permanent staff members of the Commission. I wonder why the strong bias in favor of professional economists.

I want to make it quite clear that I have no predisposition to prejudice against the professional economist. But wouldn't it have been desirable to obtain more people with practical experience in the investment industry?

I think another important fact, and one which you mentioned just a few moments ago in connection with my inquiry regarding the September 1st deadline, is that the nature of the staff now, should it become necessary to extend beyond September 1 next year, could complicate rather significantly the continued staffing of the study and interfere with the continuity of the study.

I think we should also recognize that with the present staffing, the Commission would be immediately deprived of the expertise these men have built up as soon as the study is complete. You might comment on that.

Mr. SMITH. As you know, Mr. Chairman, I am a lawyer, and like you I try not to exhibit any prejudice about economists. I have found the group of economists who have been working with the study a very informed, expert group. We chose an economist as director of the study, and have staffed the study in the main with economists really to reflect and carry out the representations the Commission made to the Congress and the strong statements in the record that led to the resolution that this would be an economic study and not an investigatory or enforcement-type proceeding.

One of the main interests, as we interpreted the Congress' direction for the study, was to gain some larger perspective on the underlying economic trends that were evidenced in what we call institutionalization and that have led to some of the regulatory problems in this area.

We thought that the basic, objective, economic analysis that we hope this study will provide will permit more informed conclusions about the nature of the regulations that may or may not be indicated at the conclusion of the study. We have drawn most of the economists from the university environment. We were not without some interest in obtaining economists and people with economic training from the industry. They are very difficult to obtain.

We do have one or two economists on the staff who have had practical experience in the industry. One of our economists comes from the Commission's staff with the experience that that perspective has given to him.

I don't believe that the university background is a fault or will complicate the conduct of the study. Indeed, I think it will facilitate it.

It is true that there may not be a strong carryover of personnel from the study to the regular staff of the Commission, although I have personal hopes in a different direction. Nevertheless, I think it is a practical reason for reporting on the date we have indicated and I think it does have some merit for that purpose.

Mr. MOSS. Is it likely, given the nature of the staffing, that the study will be largely academic and theoretical in nature, somewhat analogous to the Wharton Report of 1962?

I believe it took about 4 years following that report for the Commission to produce public policy recommendations which the Congress could act upon.

I am concerned that this could be a similar type study and one which will take more time than I think we have. Congress has a need, and I think an expectation, that it will receive specific public policy implications which it can act upon if action is necessary.

Mr. SMITH. We are quite aware of the possibility that such a study could become academic and theoretical. I believe that the economists working on this study recognize that that is not the objective or purpose of the study.

The happy aspect of the resolution which the Congress arrived at, of providing for an advisory committee, I think assists in negating any possible orientation in that direction that the study would represent.

Of course, a theoretical understanding of what is occurring is very important, I believe, to understand what, in fact, is occurring.

I don't believe that people who are disciplined to thinking in theoretical terms will necessarily provide an impractical result.

I believe in part my assignment to this task by the Commission reflects an interest on the part of the full Commission that this be a purposeful and relevant study to the problems that we have.

Mr. Moss. Could we then have the assurance that the recommendations which will be made on September 1, 1970, will reflect the considered judgment of the Commission after it has undertaken an evaluation of the recommendations received from the study group, and that it will forward to the Congress precise recommendations for policy implementation?

Mr. BUDGE. Mr. Chairman, if I might answer that, that is certainly our intention. As Mr. Smith indicated, the reason that he consented at the wish of the Commission to undertake this was specifically for that purpose.

The Commission thinks that this study needs to be completed soon to serve the purpose for which it was set up as a result of the legislation introduced by yourself and Mr. Keith.

We are very much aware of the urgency and that, as Mr. Smith indicated, was the reason that he was assigned to keep a finger right on it and to keep the Commission advised, which he has done very, very well.

Mr. Moss. Thank you.

Mr. Keith.

Mr. KEITH. Thank you, Mr. Chairman.

Mr. SMITH. Mr. Keith, may I give a bit of a further response to the chairman's statement?

Mr. KEITH. Certainly.

Mr. SMITH. Our ability to produce sufficient analysis upon which to make informed recommendations will depend very heavily upon the responsiveness, of course, of the institutions that we are questioning and the marketing organizations.

We anticipate and expect the kind of cooperation that will permit us to get the data on time. We are trying to phase it in such a way that the information will be coming in.

I would like to emphasize that our ability to do the kind of analysis will be heavily dependent upon institutions responding appropriately and timely to our requests for information.

Mr. Moss. Of course, the committee recognized that fact in authorizing the study and we had the assurance of the industry that that type of cooperation would be given the study group. Nothing has developed so far that would raise any doubts in your mind as to the willingness of the industry to be fully cooperative in a timely fashion?

Mr. SMITH. That is correct.

Mr. Moss. Mr. Keith.

Mr. KEITH. Thank you, Mr. Chairman.

Some years ago the SEC testified that the institutions at the time of a downward trend in the market moved in a way that helped to stabilize that market.

I have reference to what was known, I think, as "gloomy Monday," a phenomenon that occurred about 1962. We have a downward drift now in the market, and have had it for some time. Have these institutions been a stabilizing factor as they were in 1962?

Have you made any similar survey as to their conduct during this downward trend? Have their actions recently paralleled those they took in the early 1960's.

Mr. SMITH. That is a very appropriate question, Congressman Keith, and it is a significant aspect of our study projects that will be devoted towards attempting to arrive at some kind of conclusions in this area about the potential of stabilizing or destabilizing impact of institutional purchases and sales.

We intend to look at it over a fairly extended time period to gain some insight into that question. Unless Dr. Farrar of our staff has some other views, I don't think we are in a position at this point to assess the institution's role in the recent downtrend in the market.

Mr. KEITH. The Commission apparently had some staff responsible for this at that time. I would hope that the SEC hasn't divested itself of all that responsibility and activity during the time that the special study is going on.

Mr. BUDGE. Mr. Keith, we have not. Our Office of Policy Research has some information in this area. I don't have it at my fingertips. I would be very happy to furnish it for the record. It is for the last 6 months or so.

Mr. KEITH. Can you say generally that the institutions' activity has paralleled that of the early 1960's?

Mr. BUDGE. My impression is that the institutions have been in the market on the buying side during the decline, but I would want to shore that up with the actual statistics which we would be able to furnish.

(The following information was received for the record:)

COMMON STOCK TRANSACTIONS OF SELECTED INSTITUTIONAL INVESTORS DURING THE FIRST SIX MONTHS OF 1969

Common stock prices followed a seesaw pattern during most of the first six months of 1969. After changing little during January, prices on the New York Stock Exchange dropped rather sharply between the end of January and the middle of March. A rally lasting through mid-May completely erased these earlier losses, but prices subsequently turned down again and by the end of June were eight percent below their beginning of the year level and nearly 12 percent under their all-time high of late November 1968.

During the past year the Commission's staff has been developing monthly data on stock transactions of four major financial intermediaries; i.e., private non-insured pension funds, open-end investment companies, life insurance companies and property and casualty insurance companies. Preliminary data on these institutions for each of the first six months of this year (see Table 1) suggest that their transactions had a stabilizing influence on prices during this period. That is to say, their net purchases were largest during periods of the greatest price weakness and smallest during periods of strength. Some decline occurred in the net purchases of these institutions from 1968 levels but except for mutual funds all were purchasing on balance in each month. Mutual funds were selling in January when prices were relatively stable but acquiring as prices declined.

The experience in the first six months of 1969 is generally similar to institutional activities in previous declines. Net acquisitions of institutions other than mutual funds (open-end investment companies) have trended upward in recent years with little deviation. Mutual funds, on the other hand, have shifted on occasion from being net buyers in one quarter to a neutral or net seller position in the next quarter. Most of the month-to-month change in total net purchases of these institutions so far this year is attributable to this source.

TABLE 1.—MONTHLY PURCHASES, SALES, AND NET ACQUISITIONS OF COMMON STOCK
BY SELECTED INSTITUTIONS

[Rounded to nearest \$10,000,000]

	1969 monthly					
	January	February	March	April	May	June
1. Private noninsured pension funds:						
A. Purchases.....	1,350	1,120	1,220	1,180	1,260	1,430
B. Sales.....	940	690	750	950	1,040	800
C. Net purchases.....	410	440	470	230	220	630
2. Open-end investment companies:						
A. Purchases.....	2,020	1,600	1,570	1,860	2,170	2,270
B. Sales.....	2,360	1,430	1,530	1,650	1,750	1,800
C. Net purchases.....	-340	170	50	210	420	470
3. Life insurance companies:						
A. Purchases.....	310	240	320	250	320	360
B. Sales.....	110	190	170	100	190	220
C. Net purchases.....	210	60	150	150	130	140
4. Property and casualty insurance companies:						
A. Purchases.....	280	220	270	310	240	360
B. Sales.....	130	80	160	170	140	170
C. Net purchases.....	150	140	120	140	90	200
5. Total:						
A. Purchases.....	3,960	3,190	3,390	3,600	3,990	4,410
B. Sales.....	3,530	2,380	2,610	2,880	3,120	2,980
C. Net purchases.....	430	810	780	703	870	1,430

Source: Office of Policy Research, Securities and Exchange Commission.

Mr. KEITH. Is the relationship between the special study group and the Commission so arm's length that there isn't a flow of the current information on a "need to know" basis?

Mr. BUDGE. No, sir. In fact, the Commission has gone into that in some detail. In the last meeting the Commission had with Director Farrar and the rest of the study staff, Mr. Gene Finn, who heads up the other office of which I spoke, was present all during that, and we had some discussions as to what one could furnish the other and vice versa.

Mr. KEITH. Perhaps it would be appropriate for Dr. Farrar to comment on this exchange we have just had, if he would care to do so.

Dr. FARRAR. I believe Commissioner Smith is probably in the best position to comment specifically on the flow of information going between the various portions of the Commission and the study.

As far as hard information is concerned, we are not in a position yet to supply anything to anybody.

The first of our questionnaires to the banks, which are the first of the institutions that we are approaching for quantitative types of data, went forth last Thursday, I believe, or at any rate, last week.

Regarding your earlier question, we do have a variety of studies underway which would be able to, I think quite properly answer your question about the extent to which institutional trading has been a stabilizing or a destabilizing force during the recent market decline.

Mr. KEITH. Is the trend still upward as far as the ratio of institutional trading to individual trading is concerned?

Mr. SMITH. Every indication we have is that it is, and some of those statistics are referred to in the earlier part of my longer statement.

One of the objectives of the study, too, is to make more precise the kind of information upon which those impressions are based. But we have reason to believe that the impression the figures that are now available create is an accurate one, that institutions are increasingly predominant in the markets.

If I could just comment on one point further about the interchange when the Institutional Investor Study staff and the regular Commission staff, we have created liaison members with the regular divisions and the study staff.

There has been, on a need-to-know basis, an interchange of information between the two.

We decided at the outset, though, that we would not attempt to bring the study staff in to analyze specific problems that were of immediate regulatory concern to the Commission in order to permit them to take the more comprehensive approach that we understand the Congress wished the study to represent.

We believe that the relationships are and have been effectively created between the study staff and the rest of the Commission.

Mr. KEITH. Has there been any detectable change in the pattern of institutional trading as a result of more active surveillance on the part of the Commission?

Has this looking over the shoulder of the institutions had any effect on their performance at all?

Mr. SMITH. It is possible that individual institutions might respond that way. I would have a sense that some of these movements are too fundamental to be affected by tightened surveillance over a certain period of time.

Mr. KEITH. I have particular reference to the so-called go-go funds whose managers moved in and out rapidly, and sometimes, reportedly, in concert.

I would think they might tend to conduct their operations more thoughtfully than speculatively by reason of the existence of this study group.

Mr. SMITH. We will be looking at aggregate purchases and sales on a monthly basis going back some 21 months which would have been before the proposal or institution of this study.

I would hope if there are any changes in patterns in that respect it might be indicated. I have no sense at this point that the existence of the study in itself has changed trading patterns.

Mr. KEITH. A new subject, and not perhaps closely related to the mission of the special study group: What is the Commission doing about the proposal of the New York Stock Exchange to permit public ownership of its member firms?

Are you waiting until it becomes a fact before you move?

Mr. SMITH. I would like to refer that to the Chairman, if I may.

Mr. BUDGE. We have not yet received the proposal, although we read something about it in this morning's paper.

Mr. KEITH. It wasn't only this morning's paper but it has been generally discussed for some time.

Mr. BUDGE. Yes, sir. But the actual proposal we have not yet received.

Mr. KEITH. So you are waiting for them to act. How do you feel about it?

Mr. BUDGE. The question of public ownership, of course, is also tied up in the commission rate hearings as are some other problems within the industry. The Commission has not reached any conclusions as to public ownership because those hearings are still open.

That is one of the subjects of our hearings. It is very closely tied to the Commission rate structure.

Mr. KEITH. Do you feel that higher commissions would result in a greater incentive for brokers to obtain more profitable return for shareholders?

Mr. BUDGE. There is a difference in the approach of the people running the brokerage firms. I am sure that would be true, if they had that responsibility. Whether or not they would want to get a greater return for shareholders than for partners, I am not sure.

Mr. KEITH. I would say that in addition to seeking compensation for themselves for the services that they render, there would also be the desire to compete with others for larger rewards for those who put up the capital.

Mr. BUDGE. That element would certainly be present.

Mr. KEITH. Dr. Stevenson believes one registration statement has been filed by Donaldson.

Are you aware of whether or not that is in fact the case?

Mr. BUDGE. Yes; that is the case.

Mr. KEITH. But this is so recently under advisement that you haven't any forecast about your action on it?

Mr. BUDGE. I am not sure that we could refuse to act upon it.

Mr. KEITH. Do you think it is in the public interest to act favorably on it?

Mr. BUDGE. We have no authority to blue-sky any registration statement which comes before us. We would have to approach it a little different than through our Division of Corporation Finance.

If a full disclosure is made, the Commission has an obligation to make the registration statement effective. In fact, it has no choice. It becomes effective by operation of law.

Mr. KEITH. Do you think it is good public policy?

Mr. BUDGE. The Commission has made no decision there. It will have to shortly.

Mr. KEITH. Do you have it on the agenda?

Mr. BUDGE. Yes, sir; very much so. As I say, it is in the commission rate structure hearing. That is one of the subjects that is supposed to come out of that hearing.

Mr. KEITH. It seems to me that the public policy implications of brokerage firms going public would enable you to separate this issue from that of the commission rate structure.

Mr. BUDGE. I think that may have to be done.

Mr. KEITH. I don't think that the Congress wants to be in the same boat as it has been in connection with one bank holding companies. We don't want to have to enact any legislation with retroactive features.

It seems to me that there is some desire among the professionals on the staff as well as the amateurs in Congress to face up to this problem expeditiously.

I have no further questions at this time, Mr. Chairman.

Mr. Moss. Mr. Stuckey.

Mr. STUCKEY. Thank you, Mr. Chairman.

Commissioner Smith, is the Commission in any type of position at the present time to make any recommendations or bring forth any of the results of the study, or is it really that far along?

Mr. SMITH. No, Congressman Stuckey, we are not at all that far along. As a matter of fact, the study staff has attempted to approach this without any preconceptions as to whether additional regulation, less regulation, or the same amount of regulation should be imposed.

What we are trying to do is to get as good a reading, as accurate, as objective a reading as we can on what in fact is happening. We have not in any way reached any prejudgments. We have resisted those.

Mr. STUCKEY. After the institutional study is completed, do you think that there will be any substantial differences between the study and the SEC Commissioners themselves, or do you think that they are all following it along enough and participating in it to where it will come to us as a unified report?

Mr. SMITH. I hope so. The Congress asked the Commission to report to it. One could imagine the worst of all possible worlds in which the advisory committee, each member of the professional study staff and each member of the Commission disagreed. I hope that the sense of institution at the SEC is strong enough that that result won't obtain.

Mr. STUCKEY. What areas have you sent out the questionnaires to?

Mr. SMITH. In what areas?

Mr. STUCKEY. Just to the banking industry so far?

Mr. SMITH. To the banks so far. The banks are such a variegated institution that it was perhaps most difficult to adjust our line of questioning to their system of recordkeeping. We are hopeful that the extensive amount of time that we took in attempting to adjust our information requests to their system of recordkeeping will be made up in the speed with which they respond and the form in which they respond.

Mr. STUCKEY. Will you send out questionnaires or have contact with, say, your specialists on the exchanges themselves, as to minimum rate structure, access to the exchanges? Will you go into that much depth in this study?

Mr. SMITH. The access questions and level-of-commission questions are being attended to by the Commission in the form of the commission rate structure hearing.

Mr. STUCKEY. But will this go into this?

Mr. SMITH. There is undoubtedly a certain amount of overlap. What we are trying to do is to have as long term a perspective in this study as possible, and not to have this study be a basis for regulatory decisions that may be necessary during its course.

Mr. STUCKEY. What about the specialists? Are you going into that area?

Mr. SMITH. Yes, we certainly will be looking closely at the specialist system as at the block trading system.

Mr. STUCKEY. Let me ask one last question: Do you think that Congress has appropriated adequate funds to conduct the study as you would like to see it conducted, as thorough and in such detail as you would like, and really as we would like?

Mr. SMITH. Congressman Stuckey, you have a facility for asking difficult questions.

Obviously I would like to see more funds in this study. I think we can do it with the amount that has been authorized, with the assistance that we are obtaining, with the cooperation from others.

There is a point at which I suppose additional information, additional study, becomes study for the sake of study. I think we can do it within this amount of money and time span. Obviously if we had more money, more time, we could look at it from more different viewpoints and presumably it would be enhanced to that extent. But I think we can do it with this amount of funds.

Mr. STUCKEY. Thank you, Commissioner Smith.

Thank you, Mr. Chairman.

Mr. MOSS. Mr. Thompson?

Mr. THOMPSON. Thank you, Mr. Chairman.

How many are on the staff at present?

Mr. SMITH. Thirty-three. We also have some help from the Federal Reserve Board, the FDIC and NASD. There are about 33 of our own staff.

Mr. THOMPSON. Did you have a program originally designed to spend the \$875,000 over the period of time which the original authorization was for? Was this the original intent or was there no intention whatsoever to try to meet that deadline, but the thought that perhaps you could come before the Congress and ask for an extension?

Was there a schedule to spend the necessary funds, employ the necessary people, and do the job within the time originally granted?

Mr. SMITH. I think it was originally contemplated that the study would take about 18 months. That was the idea, I think, when the original study proposals in the early spring of 1969 were made.

Mr. THOMPSON. Do you know why the period of time was as short as it was? Why you were not given more time in the original bill?

Mr. SMITH. I don't know what led to the September 1, 1969 date.

Mr. THOMPSON. Was there a request for a longer period of time?

Mr. SMITH. I think originally there was.

Mr. MOSS. Would the gentleman yield?

Mr. THOMPSON. Yes.

Mr. MOSS. I believe the whole thing got off schedule when Congress took so long to enact the necessary appropriation bills. Instead of operating on a fiscal year basis, as our own rules require we do, we waited until October before we provided the funds and this made it necessary that the schedule be recast.

We admittedly sought a very tight schedule because of the sense of urgency felt by the committee for such a study.

Mr. THOMPSON. Basically, you did not receive the funds until they were appropriated, until October 31, according to the report here.

Let me ask you this: How much of the \$875,000 has been spent?

Mr. SMITH. Could I defer answering it until I consult with our comptroller?

I believe there was submitted to you a schedule of the appropriations. There was \$300,000 appropriated or allocated in October. We spent, as of June 30, \$70,000 less than that. So that would have been \$230,000 up to June 30.

We are asking in our present budget for \$575,000 for the 1970 fiscal year. Unless our control system is way out of whack, and I am quite sure it is not, we would be spending somewhere at the monthly pace

that would lead to \$575,000 this year. Then we are asking for the summer months \$70,000 to take us to September 1, 1970.

Mr. THOMPSON. So basically you are looking at a spending pace of approximately \$60,000 per month until next June 30. Is that what you are looking at? You have \$575,000 for approximately 10 months.

Mr. SMITH. About \$50,000 or \$60,000 a month; yes.

Mr. THOMPSON. And that does not take into account the additional \$70,000 that you would like to have.

Mr. SMITH. That is correct.

Mr. THOMPSON. Do you feel that it is necessary that you have the \$70,000 (that in effect, has lapsed) to complete the study, or do you feel you are adequately funded, inadequately funded, or what would happen if, for example, we simply extended the time but did not grant the additional authorization of \$70,000?

Mr. SMITH. We would be in bad trouble.

Mr. THOMPSON. In what way?

Mr. SMITH. Well, we need some funds to carry us through the summer of 1970.

Mr. THOMPSON. The \$70,000, then, would be for July and August?

Mr. SMITH. Correct.

Mr. THOMPSON. That is basically what you are looking for in the \$70,000.

Mr. SMITH. Correct.

Mr. THOMPSON. Basically, fiscal 1971, so far as your report is concerned, would consist of 2 months, with \$70,000 for that length of time.

Mr. SMITH. Correct.

Mr. THOMPSON. Thank you very much.

Mr. SMITH. Thank you.

Mr. MOSS. Mr. Eckhardt?

Mr. ECKHARDT. I have no questions, Mr. Chairman.

Mr. MOSS. Does any member have any additional questions?

Mr. KEITH. I have one further question, Mr. Chairman.

I was scanning "The Institutional Investor" and I came across an ad which read: "Can the specialist system cope with the age of block trading?" I trust your study will deal with the role of the specialist. That must be a tremendous problem.

Mr. SMITH. The interrelationships between the large order and the small order markets is a very significant aspect of our study; yes, sir.

Mr. MOSS. There being no further questions, gentlemen, I want to thank all of you for your appearance here this morning.

This completes the hearing on this legislation and the subcommittee will now adjourn.

(Whereupon, at 11:05 a.m. the subcommittee adjourned.)