

ADDRESS

of

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before

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THE WORK OF THE RESEARCH AND STATISTICS SECTION

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The Research and Statistics Section has formed a part of the Trading and Exchange Division since July 1, 1938. While a considerable part of the work of the Section is concerned with subjects under the concern of the operating sections of the Division, its activities also cover other fields of interest to the Commission. In fact, with the exception of public utilities and the problems specifically allotted to the Monopoly Study, the Section handles research and statistical activities for the entire Commission.

The duties and activities of the Section may be divided, according to their nature, into four types: (1) Servicing the operating sections of the Commission, other branches of the federal government and the general public through supplying specific information and answering inquiries; (2) compiling current statistics from the material collected by the Commission in the course of its administrative activities; (3) making special studies for the Commission to help in the development of policy and (4) cooperating with research and statistical sections of other governmental agencies.

Before briefly describing the activities of the Research and Statistics Section under each of these four heads, I should like to sketch the present organizational set-up of the Section. The personnel of the Section now consists of 26 professional and 34 clerical employees (including authorized vacancies). All the clerical employees and about a dozen of the professional employees have Civil Service status. As a matter of fact, it is only for the few positions paying \$3200 or more per year that we can employ non-Civil Service employees and in that case the Civil Service Commission satisfies itself that the candidates qualify as "experts", which generally means that they must have had a few years practical experience in a responsible position in some branch of the securities business. It is our policy to fill vacancies or additional positions created from time to time, wherever possible, by promotion from the ranks and it has been possible for over about a year to adhere to that policy for all employees outside the expert classification.

In accordance with the major fields of activities of the Section, three sub-sections have been set up. The first handles the statistics and studies pertaining to the stock market, the second the capital market statistics and analysis and the third the statistics and studies which have to do with the financial statements of corporations and with corporate financing. In addition to these three sub-sections there is a statistical pool and a drafting unit which service the entire Commission.

## II

I shall begin the more detailed discussion of the work of the Section by describing its service functions. An example of regular activity of this type is provided by the Weekly Statistical Survey prepared for the Commission and also distributed for confidential use to a number of Commission employees and among a few other federal agencies. The Weekly Survey consists of a fairly standardized text of three to four pages reviewing the developments of the week in general business, the stock market and the money and capital markets and a statistical supplement of about a dozen pages. The treatment is entirely factual and particular emphasis, of course, is placed on such figures as are collected directly by the Research and Statistics Section and are not available elsewhere.

Service work in the form of replies to specific inquiries emanating inside and outside of the Commission requires a not altogether negligible part of our time. There are first, of course, specific inquiries from Commissioners or from other Divisions. At the present time, for instance, we are quite regularly assisting the Monopoly Study Division by furnishing certain data which they need in their work. While we have sufficient work to keep us amply occupied at the moment, this is an aspect of our activities which we should like to enlarge. We feel that we have in our files a considerable body of material which might be of use to the operating sections of the Commission but is not always utilized to the fullest extent since, on the one hand, we are not sufficiently familiar with all the problems of the operating sections and no direct requests for material which might be used in administrative problems and, on the other, the operating sections are unaware that such data are available.

We also have to answer a considerable number of inquiries from the public, relating either to figures which we release or to matters within or believed to be within the purview of the Commission. We have, of course, our share of crank mail, but I feel that the great majority of all inquiries show a real interest in and considerable understanding of the work of the Commission and I would rather have more of that type of business to handle than less.

### III

The collection and publication of current statistics derived from the material coming to the Commission in the course of its administrative activities constitute, of course, one of our major jobs. We feel that it is in this line that we have so far been of greatest help to the investing public and to students of finance, namely by putting at their disposal more and better data for forming a considered judgment of the quality of individual securities and the character of trading on security exchanges.

The oldest series of current data released by the Commission are the monthly statistics of registration statements effective under the Securities Act of 1933. This series, which runs back to July 1933, was cast in practically its present form in the fall of 1934. It presents a detailed breakdown of the registration statements which became effective during the month, indicating expected gross and net proceeds, costs of flotation, proposed uses of net proceeds, types of securities issued and type of issuers. It has been supplemented recently by quarterly releases showing various security characteristics of registered issues. As you know, the registration statements reflect only the intentions of issuers to sell certain securities, but not actual sales. To remedy this statistical deficiency -- of practical importance only for the smaller issues which are not underwritten and for investment company issues -- we have instituted since 1935 a system under which questionnaires are sent about a year after registration to small and unseasoned issuers registered on Form A-1. These questionnaires help the Commission in forming an idea of the actual success or failure of the offering of registered securities of this type. That such a check is necessary is shown by the fact that on the average not more than one-fourth of registered securities of this type are actually sold.

Some very important types of securities need not be registered under the Securities Act of 1933, notably issues of the federal government; the states and municipalities; common carriers; issues sold intra-state or placed privately. From an economic point of view, of course, we need information of all types of securities currently being sold for cash in this country. We have therefore combined the statistics of registrations with information on exempt issues which we derive partly from questionnaires (mainly for privately placed issues) and partly from the usual public sources of financial information. As a result we have built up a monthly series of statistics of new security issues since January 1934, a series believed to be more comprehensive and more reliable than any one hitherto available. Up to now this series has been used for internal purposes only but we hope to have an opportunity before long of making it available to the public.

A great part of our current statistics, of course, has to do with the volume and value of trading on national securities exchanges. Before the SEC was formed practically the only information available consisted of data on the total share volume of reported round-lot trading and prices at which round-lots were traded on organized exchanges. No figures were available for the value of trading on exchanges, no breakdown of total trading by type of transactions or by type of traders existed and nothing was known about trading in odd lots which, as has since been determined, is about one-fifth as large as total round-lot trading, nor did data exist as to trading on the over-the-counter market. This deplorable state of affairs has been considerably improved but not quite remedied. We now release daily data on the total volume and value of trading on odd lots in stocks listed on the New York Stock Exchange and the New York Curb Exchange. We also make weekly releases of daily figures on the purchases and sales of members of the two New York exchanges. We publish monthly the volume and value of trading in stocks and in bonds on each of the national securities exchanges.

In addition to these figures which are made public currently, we collect a considerable amount of information which hitherto has been used only within the Commission. Thus we possess some information on transactions in American stocks executed for foreign accounts; on purchases and sales by large investment companies; on transactions by the so-called corporate insiders reporting under Section 16 (a); and on purchases and sales of options on securities (puts and calls.)

There are still two important sets of stock exchange figures which we lack. The first is information on the volume of short selling and the second data on the volume of the relative extent of cash and margin trading. We hope, however, that some current information on both fields will soon be at the disposition of the Commission and may be made available to the public after an adequate testing period. The most important gap in our information on the securities markets, however, exists with respect to over-the-counter trading. There are no reliable data on prices at which transactions on the over-the-counter market actually take place and there is no information whatever on the volume of trading in securities which occurs outside of the organized securities exchanges. We hope that the organization of security dealers under the Maloney Act will devote some of its energies to remedying this situation.

There does not exist as yet a publication which assembles the current statistics which we collect and makes them easily available to the public. We have taken a first step in this direction by preparing for the use of the Commission, in connection with the Fourth Annual Report, a volume of tables called "Selected Statistics on Securities and on Exchange Markets". This volume brings together the results of most of the current statistical work which we had been doing and is accompanied by a description of the methods used in collecting the material, a discussion of its limitations and a summary of its contents. The Commission recently authorized the release of this study to the public and we hope that the material will help to familiarize other sections of the Commission as well as the general public with the work we are doing and the statistical material available in our files.

The material in the "Selected Statistics" ends with June 30, 1938 since that study was prepared in connection with the Fourth Annual Report of the Commission. Evidently the value of such figures is dependent on the speed with which they are made available to the public. We have been thinking, therefore, of preparing a sort of monthly statistical bulletin, similar to publications issued by other federal agencies such as the Federal Reserve Bulletin, the Monthly Labor Review and the Bulletin of the Treasury Department. Such a publication would bring together under one cover all the statistical and other factual material collected by or available within the Commission. Our plans are still in a very preliminary stage, however, and have not been submitted to the Commission.

#### IV

The special studies are, in a certain sense, the backbone of the work of the Research and Statistics Section. These studies, dealing with various aspects of our securities markets, are designed to assist the Commission in the current administration of the statutes and in the framing of policies and, last but not least, to help us in the Research Section in clarifying our own ideas. It has been our endeavor to conduct these studies in as impartial and thorough a manner as possible and to produce reports which surpass, both in the scope of the basic data utilized and in the technique of analysis applied to them, the research work done previously or being done currently on the same subjects outside the Commission. Whether we are living up to this standard is, of course, not for me to say. This branch of our activities is only now, we believe, hitting full stride. In a field as uncultivated as ours, from the point of view of really thorough work, it necessarily took a considerable amount of preparatory work, time and effort and the results of such work generally do not lend themselves to submission to a more general public.

There is one field, however, in which work done by members of the present Research Section has found its way into print, and that is Part Two of the Commission's study of Investment Trusts and Investment Companies. That part, which fills nearly 900 pages of mimeographed text, gives a detailed description of the development of investment trusts and companies of all types based on their balance sheets and income accounts, the records of sales and repurchases of securities, and their portfolio lists; discusses the ownership and control of these organizations and analyses their performance and investors experience with them. I think I am not claiming too much by saying that this work represents one of the most thorough statistical studies of a particular type of financial institution hitherto undertaken in this country by the

government or by private research organizations. We hope that this study has contributed materially to a correct appraisal by the general public of the past and present status of investment companies and that it will help the Commission in arriving at its recommendations to Congress on the subject of investment companies and trusts.

Among the special studies which have not been published and are in various stages of completion at the present time, I shall mention only a few of major size and of more general interest.

To begin with the study most general in character, we have been working for about a year on estimates of the volume and components of saving in the United States since 1933. Such figures are essential for any thorough analysis of the capital market and should be helpful to the Commission in making a diagnosis of the situation and shaping its policies accordingly. This study is also a good example of cooperative research. We have submitted a preliminary draft to the Conference on Research in National Income and Wealth, an organization in which universities, private research organizations and a number of agencies of the federal government are represented. The discussion of the preliminary draft, which took place at the recent meeting of the Conference, will help us considerably in improving our estimates and, thus, in making them more valuable to the Commission.

Another study of quite general significance deals with the number of shareholders in large corporations and with the distribution of ownership in such corporations among holdings of different size. Until over a year ago, when we began to collect, on a voluntary basis, information from about 2000 corporations listed on national securities exchanges, there was hardly any comprehensive material available on this important subject. We now will have fairly good information on the size distributions of the holdings of over 8,000,000 common shareholders -- i. e., probably between one-half and one-third of all shareholders in the country -- in a group of corporations which account for probably one-half of the total assets of all publicly owned corporations. The material derived from this questionnaire inquiry dovetails, to a considerable extent, with the data on the holdings of officers, directors and principal shareholders which we receive under Section 16 of the Securities Exchange Act and which have been summarized, as of the end of 1935, in a statistical study released about two years ago.

A very interesting subject, but one on which unsupported obiter dicta abound but factual material is lacking, is the comparative cost of flotation of new issues of securities before and after the Securities Act, particularly so far as small issues are considered. We have recently collected information on underwriting commissions and discount and other expenses for about 300 issues of under \$5,000,000 each floated between 1925 and 1929. We are now working on an analysis of this material and a comparison of it with similar data for the years 1935 to 1933 collected in connection with our statistics of registration. Information on the cost of issuance of securities registered under the Securities Act of 1933, I may add, has been currently released in summary form and will be shown in considerably more detail in Selected Statistics.

I shall now mention three studies now in progress which are of immediate interest to the work of the Trading and Exchange Division. The first of these is devoted to a thorough analysis of the odd-lot system. That system,

which handles about one-fifth of the total volume of trading on NYSE exchanges, has hitherto never been studied in any detail. <sup>1/</sup> The second study is an analysis of reports on trading for cash and on margin by about ten different categories of customers during one sample week, the week ended November 19, 1938. This again is a field in which practically no information whatever has been available up to now.

The third study really consists of a series of investigations some of which have been conducted as much as three years ago, and all of which deal with pegging and stabilizing, the mechanism which is employed in this country to "police" the market during the distribution of a newly issued security. Some of these studies deal with whatever evidences of pegging and stabilizing can be discovered in the scant records now available for the period before 1933 while others are devoted to an analysis of recent practices in this field and will require experience under the forms recently promulgated. This is one point where we are now working very closely with the administrative sections of the Trading and Exchange Division. Under the Rules XI7, a great number of forms is being received by the Commission and some of our men are collaborating with members of the Trading and Exchange Division staff in auditing these reports. These reports give a much more detailed insight into the actual conduct of pegging and stabilizing operations than has been hitherto available, and it is our intention to use them as a basis for a fairly thorough statistical study of present investment banking methods employed in this field.

Finally, I want to say a few words about what, by its mere size, is the largest statistical study which we have hitherto undertaken. It is the so-called Census of American Listed Corporations, a project sponsored by the Securities and Exchange Commission, but financed by the Works Progress Administration in New York City. In this project, which at its peak has employed more than eighty white collar WPA workers, we have abstracted in considerable detail the registration statements filed on Forms 10 and 10K and similar forms under the Securities Exchange Act of 1934. The material covers the years 1934 to 1937 and embraces about 2100 companies, mainly in the fields of manufacturing, mining, trade and service, and in the utility industries. The main subjects covered by the abstract are the balance sheet and income accounts of individual companies and of industrial groups of companies; data on the capital structure of parents and subsidiaries, on officers' remuneration and on volume of sales, and a number of financial ratios derived from these figures. I think I need not describe the project in more detail, since the data have already been released for about ten industries, and will be released in the near future for another eight industries. We hope to be in a position to coordinate the entire material in a rather substantial final summary report which should constitute one of the basic publications in corporation statistics and should greatly facilitate and encourage the use of the wealth of relevant information made available to the public through the annual reports rendered under the Securities Exchange Act.

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I shall close with a few remarks on the fourth field of our activities, which I am inclined to regard as by no means the least important one, namely

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<sup>1/</sup> The recently published report of Professor Hardy is, on many points, not detailed, and thorough enough for our purposes.

our cooperation with the research men in other federal agencies. After all, the federal government is not an aggregation of unrelated departments and agencies, but a vast organization in which overlapping, duplication and working at cross-purposes should be reduced to a minimum. We try to do our little bit in that direction by keeping in as close touch as possible with the other federal agencies which do research and statistical work in fields similar to those which we cultivate. That is done informally but probably most effectively by contact with key men in the research sections of other agencies. It is also done in so-called advisory committees of which I shall only mention two examples, both connected with large WPA projects sponsored by a federal agency. The first is the Advisory Committee for the Bond Standards Study, sponsored by the Federal Deposit Insurance Corporation and co-sponsored by the Federal Reserve Board, the Comptroller of the Currency and the Securities and Exchange Commission. This study, which is still in its initial stages, will collect information on every issue of bonds issued by a domestic corporation since 1900. Among other things investors' experience with different types of bonds will be measured and the result of this aspect of the study should be of considerable importance for instance for the Public Utility and Reorganization Divisions of the Commission. The study is supervised by an Advisory Committee in which five federal agencies, a private research agency and one financial service are represented.

The second advisory committee, on which the Commission is represented, helps in planning the work of the Income Tax Study sponsored by the Treasury. It is not sufficiently realized, I think, that the income tax returns received by the Treasury from individuals and corporations constitute the greatest mine of economic and financial information -- and not only on fiscal matters -- available in the United States. It is therefore of great importance that material which is already available in these returns be utilized as completely as possible and also be utilized in such a manner that other governmental agencies receive the maximum benefit therefrom. The advisory committee was set up, I suppose, among other things just for the purpose of making sure that all points of view be taken into account in using the income tax returns for 1936 and 1937, which form the main fodder for the WPA project. Of matters interesting to the Commission, which we expect from this project I shall mention only a few: more comprehensive statistics of the issue and retirement of corporate securities than can be derived from any other source; detailed statistics of taxable transactions resulting in capital gain or loss, a type of data which should shed considerable light on the trading habits of different classes of investors; and statistics of dividends received by individuals which would give us a better idea than otherwise obtainable of the structure and diversification of the stock portfolios of individual investors.