



SECURITIES AND EXCHANGE COMMISSION

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SEC CHAIRMAN SHAD CALLS FOR SECURITIES INDUSTRY HELP IN ERADICATING ABUSE OF INSIDE INFORMATION

John S.R. Shad, Chairman of the Securities and Exchange Commission, called upon the securities industry today to help the Commission eradicate the abuse of inside information. He pointed-out that, "Recent headlines have implicated clients, partners and employees of some of our leading investment banking, brokerage and law firms. The firms -- and all of us -- are being victimized by those, who overcome by greed, are willing to risk their reputations and careers -- prison terms, fines and civil suits -- often for paltry sums. Sometimes as a favor to a friend. Ferreting out such abuses is a top Commission enforcement priority."

Mr. Shad's remarks were prepared for delivery to the annual dinner of the Investment Association of New York at the Waldorf-Astoria on Thursday evening.

"I know that virtually every firm represented here this evening has internal procedures, controls and surveillance systems to deal with such problems," he said. "I can only ask that you redouble your efforts:

- o That you restrict confidential information to those who have a 'need to know'.
- o That at least annually, you advise your employees of the harsh consequences of such conduct.
- o That you request their help in ferreting it out.
- o That all suspicious transactions be brought to the prompt attention of your Legal and Compliance Departments.
- o And that they continue to work closely with the self-regulatory organizations and the Commission in the eradication of such abuses."

He emphasized that "abuse of inside information is a very serious problem", but he also took issue with those who have proclaimed that, "It is the rule, not the exception", and that "it is so pervasive that nothing can be done about it."

"It is as wrong to overstate the problem as to ignore it," Mr Shad said. "Public confidence in the integrity of our markets is not only justified, it is essential to the nation's capital formation and economic stability."

He said those who would despair in dealing with the problem, "base their opinions principally upon the price moves which frequently occur in the face of tender offers. However, there are 9,000 publicly traded companies. During any given year, only a small fraction are subject to tender offers -- or to other extraordinary developments which offer similar certainty of significant price movements."

He pointed-out that, "Our markets are under intensive electronic surveillance by the exchanges and the National Association of Securities Dealers, as well as the individual securities firms. Most anomalous price moves reflect short term, speculative expectations that often fail to materialize."

"Billions of dollars of securities turn over daily. The prices of the vast majority of stocks reflect publicly available information and investors' opinions of the prospects for the companies and the economy." He said, "Abuse of inside information is a very serious problem, but it is the exception, not the rule."

"The vast majority of investors and businessmen are honest. They want to see those who lie, cheat and steal, exposed and prosecuted. They want to compete in a fair environment in which the rewards go to those who deserve them."

"America's securities markets are by far the best the world has ever known -- the broadest, the most active, efficient and the fairest. However, they can be -- they must be -- better. With your help, we can ferret out those who would impugn the integrity of our markets!"

Chairman Shad then turned to the Commission's recent proposals to "simplify and expedite corporate registration and reporting requirements, without compromising the full disclosure of material information to the investing public". He also mentioned that other areas presently under review at the Commission, with a view to deregulation and simplification, include, "the tender offer and proxy rules and regulations, uniform state securities laws and broker-dealer registration requirements, investment company self-regulation, broker-dealer net capital and related regulations and the Glass-Steagall, Public Utility Holding Company and Foreign Corrupt Practices Acts."

He concluded by indicating that Congress is about to undertake a major review of the laws which regulate the nation's financial institutions. He applauded the effort to eliminate the excessive, duplicative and conflicting rules and regulations which have grown-up over the past half century. He said, "Innovation, new products and services, should be encouraged, rather than inhibited by artificial barriers".