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AN SEC PERSPECTIVE ON BANK TRUST DEPARTMENTS

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I appreciate the opportunity to participate in this National Trust Conference and provide a perspective from the Securities and Exchange Commission. The program indicates my remarks will cover "the SEC's anticipated actions in the evolving markets, an update on the Bank Study, achievement of the SEC in improving securities markets with carry-over benefits of fees improvement to the trust business, and major issues that may impact trust departments over the next five to ten years." I obviously cannot discuss such a broad range of significant topics in any detail today, but I will offer you some personal observations and insights on those topics which may be helpful.

Since 1934, the Commission has been responsible for the administration of the Federal securities laws which were enacted to assure full and fair disclosure, to prevent fraud, and to promote equitable, fair and efficient securities markets. Because bank trust departments are the largest class of institutional investors with assets of over $400 billion dollars with approximately 20 percent of the total dollar volume of public trading in securities, it is only natural that the SEC has an interest in bank trust department investment activities and their effect on our

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securities markets. Trust officers are equally interested in, and concerned with, the activities of the Commission, not only because about half of the assets held by bank trust departments are invested in corporate stock, and thus equity markets which provide depth, liquidity and economical access for all buyers and sellers are essential for successful trust operations, but also because the Commission has regulatory jurisdiction over some bank trust department activities.

Historically, the SEC sought to fulfill the responsibilities of promoting fair and equitable markets by focusing almost solely on disclosure of material facts with respect to the nature and character of securities and on the prevention of fraud in securities transactions. In recent years, however, barriers to the free workings of competitive forces in the equity markets have made it necessary for the Commission to facilitate a restructuring of the mechanisms and institutions through which securities are traded in order to meet the needs of investors and of those desiring to obtain capital.

Trading systems with fixed minimum commission rates, restricted access to trading facilities, and restrictions against exchange members dealing on economic terms with non-exchange market professionals, may have been satisfactory to accommodate investors in the past when markets were characterized by many offsetting small orders. But they

clearly were not satisfactory for the large block transactions that have accompanied the increased institutionalization of our securities markets during the last two decades. Some segments of the system, protecting their own short run interests, strongly opposed the removal of anti-competitive barriers which precluded economical market access to institutional investors. To overcome, and even profit from, restrictions on primary market participation, securities listed on the New York Stock Exhange were traded on regional exchanges and over the counter. In some cases this was done to obtain better executions and in others to avoid public disclosure, the limit order book and the crowd, and to engage in reciprocity, and reduce or recapture commission dollars.

As early as 1963, the Commission recognized these problems and brought them to the attention of Congress and the industry in our Special Study of the Securities Markets. In the late 1960's, the Commission reluctantly concluded that government initiatives were required to bring about the changes necessary to preserve the strength of our securities markets and restore investor confidence. On February 2, 1972, the Commission stated that it was not necessary to tolerate the market fragmentation and the related inefficiencies that had developed because of fixed minimum commissions and limited access to exchange markets. On March 29, 1973, the Commission issued a Policy Statement

on the Structure of a Central Market System. This Policy Statement, which was based on two major Congressional studies, several industry advisory reports, recommendations from other industry and non-industry sources and extensive study and analysis by the Commission, outlined a national market system that would promote competition, link all markets, establish comparable regulation of industry participants, reflect all bids, offers, and transactions in eligible securities, and make it possible for investors, whether large or small, to obtain economic best execution.

Since that time, significant progress has been made toward an efficient market and benefits are being received by investors. A consolidated last sale reporting system has been established and trades from all markets in eligible securities are being publicly disclosed. A composite quote system which can show bids and offers from all markets is in place, and can be used by market makers to compete with each other and by brokers to seek best execution. Barriers restricting exchange members from transacting agency trades in other markets have recently been removed, thus permitting all agency trades to be executed in the market which, in the broker's judgment, offers the best price, to the extent facilities for such executions on an economic basis are available.

In my opinion, however, the most fundamental decision by the Commission, and the one that has had and will have the greatest restructuring effect on the securities industry, was to require the removal of exchange rules providing for fixed minimum commission rates, whether on public trades or on transactions between market professionals. One of the major benefits of competitive commissions has been "savings" of about $750 million by investors since May 1, 1975, measured as a discount from the former fixed commission rate structure. There have been some savings for individual investors, and there will be more as competition for individual orders increases and as more efficient systems for the execution of smaller orders bring lower costs. However, most of the savings in brokerage commissions have accrued to investors using institutional intermediaries.

Discounts vary somewhat by geographical area, and the type and size of transactions; and I recognize that you are more aware than I of the savings available to your own trust account clients. Nevertheless, our January 28, 1977, report to Congress monitoring the effects of competitive commission rates indicates that the average commission paid by institutional customers per share has declined about 34 percent from April of 1975 to November 1976 and is still declining at a moderated pace. Measured as a percentage of the principal amount of transactions, there has been about a 38 percent reduction in commissions during the same period. Moreover,

brokerage commissions, assuming no affect on trading volume, reduced brokerage industry revenues by that amount. However, neither our monitoring nor any independent study, to my knowledge, has produced evidence indicating that competitive rates have adversely affected the efficiency of our markets or that there has been a reduction in liquidity, or an increase in volatility or an inability for investors to obtain desired research or other services. Moreover, while there have been firms which have been unable to survive, there is no evidence that the ability of the industry to perform brokerage and underwriting functions has been weakened. In fact, the securities industry has remained profitable and its financial condition has improved as capital has increased.

Along with the benefits which come from a more open and competitive securities industry, there have also been problems for trust departments and other money managers. During the era of commission rate regulation, the income from brokerage on large orders was so substantial that brokers were able to share commissions or offer, without additional charges, ancillary services, including research, to money managers to attract their clients' brokerage business. Money managers developed a pattern of dealing with brokerage firms offering the most desirable services in order to maximize the benefits received for commissions paid.

with major full service brokerage firms beginning to offer brokerage on a straight cents per share basis for institutional orders, there will likely be further reductions and a discontinuance of computing rates as a discount from the historical fixed commission base, which was never very accurate and which becomes even less meaningful with the passing of time. While the results of competitive brokerage commissions may be beneficial to trust account beneficiaries and other institutional investors, it is also important to ascertain what long run effect they might have on our securities markets.

When the Commission was considering whether to remove barriers to commission rate competition, it was argued that competitive rates would unfairly benefit institutional investors at the expense of individual investors, and that the increase in the proportion of total trading by institutions and the loss of brokerage revenue would adversely affect the pricing efficiency of the market and the ability of the securities industry to perform its brokerage and underwriting functions. Of course, such results would be counter to the SEC's purpose to facilitate fair and efficient markets.

The significantly lower commission rates on institutional securities transactions may encourage securities purchases through institutions rather than direct purchases by individuals and, obviously, the $750 million savings on

In many instances these benefits were passed on to beneficiaries, were taken into account in establishing contractual fee arrangements between money managers and their customers, and were recognized in laws and regulations establishing limits on fees and administrative expenses that could be charged. It was feared that with competitive rates, money managers acting as fiduciaries would be forced to sever longstanding business relationships with full service brokers and always seek cheapest execution, thus creating transitional problems for the brokers and sacrificing the research and other services money managers were obtaining without cost to themselves.

As early as 1972, the Commission maintained that the unfixing of commission rates would not require fiduciaries to operate on the principle that "cheapest is best." However, because of the strong fears expressed and our desire to assure that competitive rates would not disrupt normal legitimate business relationships, the Commission supported the enactment by Congress of a safe-harbor provision, known as Section 28(e) of the Exchange Act or the so-called "paying-up" amendment, to deal with this problem. Section 28(e) generally provides that a money manager does not breach fiduciary duties under state or Federal law solely by reason of his paying brokerage commissions in excess of the amount another broker would have charged if the manager determines

in good faith that the commission is reasonable in relation to the value of brokerage and other services received. The Commission was aware that a paying-up provision might be used to justify new "give up" and reciprocal arrangements which could be detrimental to the securities markets, and thus we attempted to assure that the provision was drafted as narrowly as possible while still providing the opportunity for brokers and money managers to adjust to the new environment of price competition.

The enactment of Section 28(e) did not resolve the "paying-up" problem. Some fiduciaries have suggested that despite the safe-harbor provision, the safest course is to seek lowest cost execution. Others have claimed that Section 28(e) provided a basis for using brokerage commission revenue to pay for nearly any service or product desired by a money manager, and have promoted "give up" practices similar to those outlawed in 1968. In response to the abuses we perceived, the Commission issued its first interpretative release in this area on March 24, 1976. We stated:

> Section 28(e) is not authority for the proposition that money managers may charge to beneficiaries' accounts brokerage commissions calculated so that the broker may directly or indirectly provide to the money manager products and services . . . which are readily and customarily available and offered to the general public on a commercial basis.

The release, which is applicable to all fiduciaries including bank trust departments, indicated the types of products and services which could not be protected by the Section 28(e) umbrella. A list, which was not intended to be exhaustive, included products and services such as newspapers, magazines, directories, computer facilities and software, government publications, calculators, quotation equipment, airline tickets, office furniture and equipment, and business supplies.

More recently, the SEC has proposed disclosure rules with respect to brokerage placement practices by investment companies, certain investment advisers, and some other types of registered accounts such as "Keogh" plans, employee benefit plans and collective funds. Unlike our interpretative release, the Commission did not propose to make its disclosure requirements applicable to bank trust departments because the bank regulatory agencies are empowered to prescribe their own disclosure rules for banks. Our proposals are relevant to bank trust departments, however, as is evidenced by the letters of comment which we have received from banks and by the bank agencies' interest in receiving copies of all comment letters submitted to the Commission.

Generally, our proposals would require certain money managers to disclose to their beneficiaries: how brokers are selected and how their rates are evaluated;

what research services are received from brokers and how they are utilized; what other products and services are received from brokers and how valuable they are; and a breakdown of the aggregate and average brokerage commissions paid to all brokers and to affiliated brokers.

Many responses thus far received have expressed the position that the proposed information is unnecessary and that the costs to money managers would exceed the benefits to clients. Although I have not reviewed all of the letters of comment received to date on our proposals, it is my firm belief that the fiduciary principle of money management is of critical importance. In my view, a money manager has duties of loyalty and care to each individual account under his management. Accordingly, each account beneficiary should be able to determine what it is costing him for the management of his account, and the benefits, if any, he is receiving in addition to execution from brokerage charges to his account.

If the disclosure that is necessary for beneficiaries to make such determinations is considered too burdensome by money managers, then it would appear that the concept of "paying-up" is not viable. Perhaps that is the reason many fiduciaries have sought lowest cost execution and, to the extent necessary, are either providing desired services in-house or are paying for them from money management fees. In that event, Section 28(e) must be considered as a good attempt

but one which may be resulting in more problems than benefits, and should therefore be repealed.

As part of the evolution toward an efficient national market system, much progress is being made in the processing of securities transactions. Following the "back office" crisis of the late sixties, significant improvements were made in clearance, settlement, and transfer operations. However, the various industry segments involved were uncoordinated to a significant degree. The Securities Acts Amendments of 1975 granted authority and directed the Commission to provide the regulation and coordination necessary to facilitate the establishment of an integrated national system for the prompt and accurate clearance and settlement of securities transactions.

While the Commission was given general policy authority and responsibility for the coordination of developments by securities depositories, clearing agencies, and transfer agents, and for programs with respect to fingerprinting and for the detection of lost, stolen and counterfeit securities, some registration, enforcement, and safekeeping responsibilities were shared with the Federal bank agencies.

Perhaps the most important action taken by the Commission to facilitate a national clearing system is the recent granting of the application by the National Securities

Clearing Corporation for registration as a clearing agency subject to various terms, conditions and directives set forth in an extensive order. The application involved the merger of the American Stock Exchange Clearing Corporation, the National Clearing Corporation (which was affiliated with the National Association of Securities Dealers) and the Stock Clearing Corporation (which was affiliated with the New York Stock Exchange). The Commission has been criticized for its decision inasmuch as the combined entity's market share will be approximately 99 percent in New York City and 85 percent nationwide. Because of the complexity of the issue, and my understanding that members of the Commission may well become defendants because of our decision, I will not attempt to summarize the Commission's order nor explain the Commission's review, analysis and evaluation of extensive--and frequently inconsistent--data, views and arguments of the many persons interested in the then-proposed merger. I can assure you, however, that the decision was not made lightly. The Commission and its staff gave careful consideration to the many arguments raised, and particularly to the anti-competitive allegations. I believe that the four major conditions (including the free interface between competing clearing facilities and the trade comparison conditions) will enhance existing and potential competition. Moreover, in the long run, the divorce of clearance operations from the trading

markets and the establishment of a nationwide clearance and settlement system, to which all have access to one account comparison, clearing, and settlement at a reasonable cost, will have a beneficial impact on all investors and will facilitate true competition between the trading markets and between broker dealers. Based on certain assumptions and depending on trading volume, it has been estimated that one account clearing will result in annual cost savings to participants of between ten and thirteen million dollars. When costs are reduced and there is strong competition between brokerage firms, the savings should, in large part, be passed on to investors.

In the transfer area, the Commission and the Federal bank agencies developed substantially similar rules and an identical form for the registration of transfer agents under their respective jurisdictions, and transfer agents have been required to register with their appropriate regulatory body. Last May, the Commission published a series of proposed rules dealing with certificate turnaround time, reporting requirements related thereto, response time for confirmation requests and other correspondence and recordkeeping requirements for all registered transfer agents. At the present time, the Commission's staff is analyzing the many helpful letters of comment, including the views of the American Bankers Association, before making its final

recommendations to the Commission. I will not predict or prejudge the final outcome of our rulemaking proceeding. I assure you, however, that our intent is not to create unnecessary burdens and paperwork, but only to establish reasonable minimum standards of operations; and your input, as well as that of all interested persons, will help us to attain that goal.

The Commission, somewhat reluctantly, received additional powers under the 1975 Amendments to administer a lost and stolen securities program and a fingerprinting program. The Commission was authorized to adopt rules requiring specified institutions, including banks: to report information regarding their knowledge of missing, lost, counterfeit or stolen securities; and to make inquiry with respect to such accumulated data in connection with securities in their custody or control and in connection with certain securities transactions. The Commission has promulgated a rule designating the Federal Reserve District Banks and their branches as depositories of information with respect to all securities issued by the Federal Government and certain international banks, and the SEC as the depository of information with respect to all other securities. A one-year pilot program for the implementation of the rule has been scheduled to commence on the first of next month. However, because of the compliance problems which have been brought to

our attention by banks and others, at least part of the pilot may be delayed. In any event, the pilot will not include those corporate securities which have not been assigned a CUSIP number and, pursuant to the requests of many interested persons, there is an express exemption for any transaction involving less than $10,000. After we have all gained experience with this program, we can then determine whether it is workable and meaningful, and, if not, whether it should be either changed or abandoned.

The 1975 Amendments generally require that the management and employees of all broker dealers and all registered transfer and clearing agencies, unless exempted by the Commission, be fingerprinted for identification and appropriate processing by the Attorney General. The Commission has promulgated an implementing rule which contains, among other things, certain self-regulatory filing requirements for all non-bank securities personnel. In adopting this rule, the Commission has tried to include reasonable exemptions in order to avoid duplication and unnecessary burdens, and has followed a gradual phase-in process whereby the required fingerprinting will be completed by January of next year.

A new Section 13(f) was added to the Exchange Act by the 1975 Amendments authorizing the Commission to require disclosure of certain portfolio holdings and transactions

by large institutional investment managers, including bank trust departments. The apparent purpose of that section is to make information publicly available and to create a data base so that the influence and impact of large institutional investment managers on the securities markets can be analyzed and the public policy implications considered. Section 13(f), which is limited to certain equity securities held by accounts over which the institution exercises investment discretion, authorizes the SEC to determine: what aggregate asset value between $10 and $100 million dollars would be the most appropriate reporting threshold for investment managers; whether reports will be filed annually or as frequently as quarterly; and whether reports will contain information relating to such things as individual accounts, purchases and sales, individual transactions, and voting authority.

To date, we have not proposed rules for public comment in this area. One reason the Commission has not yet acted is that Section 13(f) specifically directs us to take all steps within our power to achieve uniform, centralized reporting,to avoid unnecessary duplication, and to minimize the compliance burden on institutional investment managers. The Commission will likely publish proposed reporting rules under Section 13(f) for institutional investment managers in late Spring. I expect that there will be a resolution of the

duplication which could result from the SEC and the Comptroller of the Currency both having somewhat comparable reporting systems applicable to national banks. Unfortunately, there may well be a degree of duplication between our proposals under Section 13(f) and our own rules requiring reports under Section 13(d) of the Exchange Act by beneficial owners of more than five percent of a class of certain equity securities.

In the Fall of 1974, the Commission conducted a Fact-Finding Investigation in the Matter of Beneficial Ownership, Takeovers and Acquisitions by Foreign and Domestic Persons. That proceeding was intended to be a comprehensive re-examination of the 1968 and 1970 amendments to the Exchange Act, commonly known as the Williams Act, which were enacted in response to an increasing number of significant acquisitions and takeovers. Based on the record of the 1974 hearings, the Commission has, among other things, proposed extensive rules relating to disclosure of beneficial ownership and to tender offers, but has not adopted any of these proposals.

The threshold decision which the Commission must make is to define appropriately the term "beneficial owner" for Williams Act purposes. After that determination, the Commission must consider whether it is necessary and appropriate for all five percent beneficial owners to disclose their backgrounds, source of funds, purpose of their acquisitions and future plans, and other information which

is presently required to be disclosed. I am hopeful that we will be able to promulgate final beneficial ownership rules this month.

I do not know what the Commission's final conclusions in this area will be. I personally agree with the judicial decisions that, in the limited context of tender offers and rapid accumulations of securities in a relatively short period of time, voting power is the paramount attribute for the determination of beneficial ownership. However, in my view, the power to dispose of the securities, which is an indirect form of voting power, must also be taken into account. The contestants in so-called "battles for corporate control," whether in the form of a proxy contest or tender offer or by means of stock acquisitions, are vitally interested in, and dependent on, other persons who have the power to vote or to sell securities of the same company. Accordingly, I believe the Commission should broadly define the term "beneficial owner" for purposes of the Williams Act as "the person who has the power to vote or dispose of a security," so that all stockholders will have access to appropriate information with respect to persons who can vote or dispose of significant blocks of securities.

I recognize that such a definition would have an impact on bank trust departments and other institutions which cannot directly take over a public company. However, the

accumulation of a large position of securities of a single issuer by any institutional investor, regardless of how many diverse accounts may be involved, represents a potential shift in control of the issuer of such securities. In fact, some institutional investors have actively participated in takeovers and some have been utilized by other persons for warehousing and other purposes in connection with takeovers. Unnecessary reporting burdens on the majority of institutions could be ameliorated by the adoption of a short reporting form that can be filed on a quarterly basis by bank trust departments and other institutions, provided they acquire securities in the ordinary course of business and not with the purpose or effect of changing or influencing the control of the issuer of such securities.

The 1975 Amendments also directed the Commission to conduct two studies which deal with subjects that are of interest to banks. In early December, the Commission published the final report of its "Street Name Study," which examined the practice of recording the ownership of securities in other than the name of the beneficial owner, in order to determine whether the practice is consistent with the purposes of the Exchange Act and whether issuer-shareowner communications can be improved while retaining the benefits of the practice. To assure a meaningful study, the Commission made an extensive survey of issuer-shareowner

communications during the 1976 "proxy season" and developed comprehensive data concerning the operation of the current system of issuer-shareowner communications and its relationship to, and impact on, securities processing. Based on all the data available, the Study concluded that the continued use of street and nominee name arrangements is fundamental to the operation of existing securities processing systems, and that the present issuer-shareowner communication system is basically effective. However, the Study did make several recommendations, including legislative proposals, to improve disclosure by beneficial owners and communications between issuers and shareowners.

While the "Street Name Study" concluded that the continued use of nominee arrangements is appropriate, it has become necessary for the Commission to take action to deal with persons, primarily residing outside the United States, who have violated various provisions of the Federal securities laws, such as the Williams Act and the prohibitions against insider trading and manipulation, through the use of the nominee system. One response was the Commission's republication on January 10 of a proposed rule which would, under certain circumstances, effectively require a person directing a brokerage account to undertake to furnish, at the SEC's request, the name and address of each beneficial owner of the account. Another response to perceived

problems is our legislative recommendation that the Commission be granted certain ancillary subpoena enforcement powers to compel cooperation in our investigations involving Swiss banks and other foreign entities not ordinarily subject to the jurisdiction of U. S. courts. Both of these approaches involve highly sensitive matters and, to some extent, may affect domestic financial institutions. I encourage you to become involved in our administrative proceeding and in the legislative process, so that we can preserve the fairness and integrity of our securities markets and still promote foreign investment and protect legitimate rights to privacy.

The other study, known as the "Bank Study," is intended to determine the extent to which banks engage in certain securities activities and whether the exclusion of banks from the Exchange Act definitions of "broker" and "dealer" is consistent with the protection of investors and other purposes of that Act. On the third of January, the Commission submitted to Congress an initial report which contained descriptive material and statistical analyses of bank sponsored dividend reinvestment plans, automatic investment services, employee stock purchase plans, and customer transaction services. The initial report indicates that the volume of transactions channeled through the four types of bank brokerage services is small relative to the

volume of transactions effected on exchanges and to the amount of capital raised in the primary market. The estimated market value of orders effected through the four services equalled less than one percent of the market value of transactions effected on all national stock exchanges. About ninety percent of that amount was handled through customer transaction services. The bank services also accounted for less than four and one-half percent of all new capital raised in the primary markets and ninety percent of this amount was raised by divident reinvestment plans. The success of the four services has been mixed. Banks dominate the dividend reinvestment plan market and have achieved rapid growth since they began offering the service in 1968. On the other hand, banks play a minor role in the administration of employee stock purchase plans and the growth of this service has been modest since banks began offering it in 1953. Customer transaction services have shown no apparent growth during the past two years, and automatic investment services are now offered by fewer banks than was the case in 1974.

Last Friday, a second report was submitted to Congress setting forth the comparative regulatory framework relating to banks and broker dealers in offering and operating each of these services from the point of view of investor protection, without attempting to assess the necessity or

measure the effectiveness of such regulations. The second report examines the advertising restrictions imposed on banks and broker dealers in attracting investors and explores the possible impact of suitability principles on such bank-sponsored and broker-sponsored services. With respect to customer funds and securities, the report considers requirements relating to: recordkeeping; examination, inspection and internal controls; bonding; and insolvency protections, including restrictions on the use of funds and securities as well as insolvency insurance. Operational requirements dealing with the execution of orders and confirmation of transactions are also detailed. Finally, the report focuses on the comparability of regulations with respect to: the character, competence and supervision of employees; fees, proxies and withdrawals; and federal agency enforcement protections. Although the second report summarizes regulatory differences, it does not contain any policy conclusions or any legislative recommendations.

The final report, which will be submitted before July 1 of this year, will contain additional descriptive materials on the investment management and corporate financing activities of banks, an analysis of the nature and impact of the regulatory structures which apply to the securities activities of banks, and recommendations with respect to the continuance of the exemption of banks from the definitions of "broker" and "dealer."

There has been a growing debate concerning whether banks can or should engage in certain securities activities and, to a more limited degree, whether broker dealers should have trust powers. Securities firms have broadly asserted that differences in regulatory structure and approach put them at a competitive disadvantage with respect to banks in supplying securities services to the public. Bankers broadly assert that banking laws and common law fiduciary standards impose more substantial costs and burdens on them. Although some members of the securities industry have been very critical of the Commission for not taking a stand against various bank securities activities, the Commission has maintained a neutral position. Moreover, our bank study is not intended to make recommendations as to whether it is in the public interest for banks to engage in various securities activities. However, we hope that it will provide information that can be helpful in such decisions. The study should also shed some light on the need for and effectiveness of existing regulation and its impact on competition and the costs and availability of securities services.

While I have focused on the actual and potential application of the Exchange Act to bank trust departments, I have not even mentioned the equally relevant Investment Company Act or Investment Advisers Act. These statutes, too, are of present and future interest to bank trust department

officials. For example, banks have sought orders exempting proposed pooled trust funds from all or most provisions of the Investment Company Act. One application, which has only recently been withdrawn, proposed the commingling of individual retirement account funds with an existing collective trust fund for "Keogh" trusts. A pending application requests an exemption from all provisions of the Investment Company Act for a proposed common trust fund, consisting of the assets of individual trusts, for investment in government securities. Because of its potential significance, hearings may be held on this application.

Legislation was introduced last session, with Commission support, to afford increased protection to clients of investment advisers but no final action was taken. In order to answer questions raised during Congressional hearings on the proposed legislation, I think the Commission should initiate comprehensive internal studies with respect to the appropriateness of exclusions from the Advisers Act, the feasibility of self-regulation, the duplication of state and Federal regulation, and the need for testing qualifications. In all probability, some form of investment adviser legislation will be enacted in the next few years.

Changes will continue to occur in the structure of our equity markets. I believe that the Commission will

continue to require the removal of anti-competitive barriers in order to facilitate a more open and efficient market system. I also expect developments in options markets to continue. Although we have had some problems with trading practices on such markets, trading in standardized call options has enabled both the writer and the purchaser of options to assume more preferred risk positions. The Commission is presently considering the approval of standardized put options trading which would further enhance the ability of market makers and investors to assume desired degrees of risk and maximize returns. In permitting the development and expansion of organized options markets, the Commission continues to encourage trading mechanisms which will make securities markets more efficient and lower the cost of transactions both directly and indirectly.

I have discussed several areas in which the Commission's actions affect bank trust departments and have given you some thoughts on what you might expect in the future. Some say the Commission is doing too much too fast; others claim that we are doing too little too late. It is not surprising that you may disagree with some of the things we are doing; and it is important that you give us your views on our proposals. The greater the input to our decision-making, the more likely it is that our decisions will be correct. We are proud of the high standing that the Commission

has among regulatory agencies and you can be sure that we do not seek to regulate for the sake of regulation nor do we seek to expand our jurisdiction over bank trust departments. We must, however, do what we believe is necessary or appropriate to carry out our statutory mandate of protecting investors and acting in the public interest. We hope that with your help we will be successful in fulfilling that responsibility.