Remarks at Central Michigan University

Chairman Jay Clayton

Mount Pleasant, Michigan

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Thank you Bob [Stebbins]. It is such a pleasure to be in a university town.

We drove in just after 11pm last night and even then you could feel the energy, the energy that comes with curiosity, a thirst for knowledge and a belief that knowledge, know how, effort and community will bring us a better tomorrow.

As we drove down Mission Street this morning — past the same Buffalo Wild Wings where we got a burger late last night — I took in the health center, and other businesses. I then remarked to Bob about the strength of the economic ecosystem here in Mount Pleasant and noted that Central Michigan University is clearly the anchor of that ecosystem.

This afternoon, I will speak about three things, (1) the broad importance of market prices that are transparent, information rich and fair, (2) small businesses and, in particular, environments that foster small business growth and (3) the value of teamwork.[1] Some of these topics I have covered before, but I believe they are important and worth emphasizing today.
Before I discuss the first item, market prices, I'll provide a bit more background on our capital markets and the role of the Securities and Exchange Commission. Overall, America's historic approach to our capital markets has produced a remarkably deep pool of capital with unprecedented investor participation. It is our Main Street investors and their willingness to commit their hard-earned money to our capital markets for the long term that have ensured that the U.S. capital markets have long been the deepest, most dynamic and most liquid in the world.

Their long term commitment of capital provides businesses with the opportunity to grow and create jobs; and supplies the capital markets with the funds that give the U.S. economy a competitive advantage. In turn, our markets have provided American Main Street investors with better investment opportunities than comparable investors in other jurisdictions.

To place this collective achievement in perspective, I note that the United States has approximately 4.4 percent of the world's population, yet the U.S. markets are the primary home to 56 of the world's 100 largest publicly traded companies, and U.S. households have over $22.4 trillion invested in the world's equity markets.

More significantly, at least 52 percent of U.S. households are invested directly or indirectly in our capital markets. This level of retail investor participation stands out against other large industrialized countries. It

also is especially important to keep in mind as our Main Street investors — now, more than ever — have a substantial responsibility to fund their own retirement and other financial needs.

We recognize that, as a result of increased life expectancy, a shift from defined benefit plans (e.g., pensions) to defined contribution plans (e.g., 401(k)s and IRAs) and many other factors, the interests and needs of our Main Street investors have changed.

We are responding to that change. It is our obligation to preserve, foster and build on the successful history of our capital markets. We know we must continuously assess whether we are focused on the right areas and doing the right things, keeping the interests of our long-term Main Street investors top of mind.

Market Prices

Just a minute ago, you heard Bob speak a bit about our mission, and how it includes making sure that markets are fair, orderly and efficient. I'm now going to turn to my first topic — market prices — and discuss why fair and efficient markets are so important.

Think about your interaction with our markets for a second. Even if you're not yet an investor, I hope one day all of you will be investors. There is a product that we utilize countless times a day, has almost incalculable social value and often is overlooked or at least taken for granted.
That product is market prices. Prices for stocks, bonds and other assets, generated by markets that are transparent, information rich and fair, are of immense value to our economy.

They are—to cite the economist Paul Samuelson—"public goods." Generally, once prices are published, we can all use them. Like light houses, they are in economic speak "non-excludable" and "non-rivalrous." In most cases, I cannot keep you from using price information and my use of price information does not affect your ability to use that information.

I'll give a tangible example. We — the SEC — do not set or regulate interest rates, but those rates — which are "market prices," the prices for borrowing more — are a good example of the importance of having a fair, information rich and transparent market.

It's important that everyone who wants a mortgage knows that the interest rate on their mortgage is determined fairly — for example, two people, with the same credit characteristics, seeking a 30 year mortgage, (1) should pay the same amount and (2) that amount should fairly reflect those credit characteristics relative to others with better or worse credit.

In the context of our stock markets, "market prices" are extremely valuable. Main Street investors can be confident that public company stock prices reflect the views of all investors, including professional investors and that they are paying or getting the same prices when they buy or sell stock. This is the rare kind of "free riding" — all investors benefiting from the work of professional investors — that economists adore.

Taking a step back, the wide availability of these prices is important from other perspectives. Think about decision makers at companies. Managers making long-term decisions—such as whether to invest in human capital, equipment and research—rely substantially on metrics that are themselves dependent on today's public market-generated pricing information. These include earnings multiples (for valuation) and cost of capital estimates. Prices matter. Today's prices impact many, many long term decisions and, if you cannot be confident in today's prices, you'll make fewer long-term commitments.

So that's just one reason why we spend a lot of time and effort making sure our public securities markets continue to work in a fair, orderly and efficient manner. The prices formed in those markets not only affect those of you that own stocks or bonds today, but they also affect a host of long-term decisions. As just one example, the amount of money investors are willing to invest in a business that is looking to

grow depends on what market prices — e.g., how much can the investor earn on the money if they put it elsewhere.

Small Business Capital Formation

And that leads me into one of my favorite topics – small business capital formation. I just spoke about market prices in our public markets. But public markets are just one segment of our capital markets. The other segment of our capital markets is the private markets: known mainly for private equity and venture capital investments, but it also covers investments of many types in our small and medium sized businesses.

Twenty five years ago, the public markets dominated the private markets in virtually every measure. Today, by many measures, the private markets outpace the public markets, including in aggregate size. So, let's shift the discussion from the SEC's role in the very visible public markets to our role in market for the creation and incubation of small businesses, which are a critical component of our economy.

At the SEC, we recently stood up a new office of the Advocate for Small Business Capital Formation. Through that office, we are focused on fostering small business formation and growth, including by expanding, geographically our fertile lands for entrepreneurship.

In Silicon Valley, New York, the Route 128 Corridor, Austin and a few other places, entrepreneurs can connect with the combination of (1) vast sources of capital, (2) diverse and skilled labor markets, (3) a broad array of other growing and mature businesses, and (4) a pool of professionals skilled at navigating the thicket of regulation, including securities regulation, that can be particularly daunting for small businesses.

In short, we have a handful of geographically small and highly functioning "networks" or "ecosystems" for small business growth. Why are these networks important? As we've learned from the field of economics, networks greatly reduce the costs of information access, verification, contracting, the protection of rights and the pursuit of remedies. We are focused on what can be done to expand the number of these entrepreneurial ecosystems, particularly between the coasts. Here are a few statistics that illustrate the opportunity before us: 85 percent of venture capital is concentrated in Silicon Valley, Boston, and New York. By contrast, our broad Mississippi River Valley has hundreds of large public companies and world leading universities, yet it has only a handful of established venture capital firms.

So we're taking a look at what we can do to foster more entrepreneurial ecosystems, in places like where we are, right here. If you have ideas, or you'd like to share your own experiences or challenges in raising money for small businesses, let us know.

Teamwork

Now, on to teamwork. There is a broad theme running through my remarks that, again, is so ubiquitous, we take it for granted, even though it has immense value. It starts with what economists call "signaling," or communicating important information with those around efficiently.

There is a football game here tomorrow. During that game, with a wave of the hand or the bark of a single word or two, loads of information will be communicated among teammates, and, hopefully, they will act accordingly, maximizing each other's strengths and making up for each other's limitations.

Often, the winning team is not just the one with the most individual talent, but the team that coordinates the talent they have most effectively. Because, as those of us who have been lucky enough to be a member of a good team know, teamwork produces incalculable value. Better teams beat better individual talent all the time.

Earlier this week I had the pleasure of interviewing, Jovita Carranza, the Treasurer of the United States. Her signature appears on our currency — $900 million worth is printed each day. She is a first generation professional who has risen through the corporate world, from a part-time job as a box handler at UPS to the very top of the organization, and then, has done the same in the government world.

I asked her how she did it. Her answer, in a nutshell: she was a good team member and good team builder. How so? Because she took time to understand her colleagues' talents and needs, and then "listened" to their signals — both spoken and unspoken — and she gave signals — both spoken and unspoken — that produced teamwork.

So, why this discussion of teamwork? Two reasons. First, as my discussion of small business ecosystems illustrates, one of our jobs at the SEC is set rules that provide the opportunity for long-term, team-oriented behavior — getting the best collective outcomes from the individual talents in our economy. Second, experiencing the value of teamwork is one of the opportunities University communities provide that I would encourage you to pursue. Join a team. Not just a sports team, any team.

And, make an effort to be a better teammate, including by providing your teammates opportunities to be better.

Thank you for your time.