



U.S. Securities and Exchange Commission

Making the Markets Safe for Informed Risk-Taking

by

Chairman Elisse Walter

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Good morning, thank you and welcome to the 42nd edition of SEC Speaks.

I have attended and spoken at these events for more years than I care to admit – as a staffer, a fellow regulator and SRO representative, a Commissioner, and now proudly as Chairman. It's always important and always a delight. Because what you do is unique and important, and I mean that whether you are SEC staff or you are someone who works outside of the SEC to make our regulatory system function.

When people talk about the dynamism of the American economy, most of the discussion is about the entrepreneurs and the innovators who drive it. And it should be. But I believe that those of us who foster an environment in which these men and women and the investors who provide financing to them can prosper and thrive, deserve credit as well.

In my view, more than anywhere else in the world, the United States remains a place where a visionary can risk everything on a dream or an idea and have a fair chance of fighting for it. And he or she can do so in an environment where the investors who underwrite that dream are protected.

That happens because of you. So, I'm pleased to have an opportunity to thank you, as Chairman of the SEC, for all that you have done.

Of course, I'd especially like to thank those of you who are at the SEC now – helping to protect investors, helping these visionaries achieve their dreams, helping me do my job. I would like to ask everyone here to join me in applauding your tremendous talents and dedication.

Your work makes the SEC's mission possible and you play a vital role in the American economy. As the federal government's only investor advocates, you are critical contributors to a two-part regulatory regime – one part that regulates the immense and complex macroeconomic world of the financial system, and one part that deals largely with the micro world of a single investor who sends a "buy" to his broker by e-mail. Both parts are vital. To create an environment in which entrepreneurs and enterprises have access to capital and the other financial services they need to prosper and create jobs, the economy needs prudential regulation to ensure that our systems are able to perform their critical functions. But the economy also

needs regulation with a more granular focus, to ensure investor protection and, with it, the investor confidence that puts growth-fueling capital into entrepreneurs' hands.

And so as we continue to address the systemic challenges illuminated by the financial crisis whose effects we still feel, I urge all of you to maintain your focus on investor protection as well.

The recent financial crisis has had a profound effect on the way we view and regulate the nation's economy. Its breadth and the speed with which it infected every corner of the financial system consumed trillions of dollars in wealth, pushed millions out of work, and has driven a quest for a regulatory response that significantly reduces the possibility of such a crisis occurring again.

Around the world – in Washington, in Basel, in Tokyo and in other centers of finance and government – legislators and regulators have gathered to seek solutions to what remains a vivid specter of another systemic crisis – the possibility that a single match might set the entire financial system ablaze.

The goal: to maximize stability and to minimize risk, to enhance capital requirements, to minimize moral hazard and to increase scrutiny by regulators who collectively can see across sectors, grasp their interrelated operations and diagnose problems that have the potential to grow and spread.

This is a primary aim of the Dodd-Frank Act, and it is the motivating force behind much of the regulatory energy still coursing through the global financial system. But we need to do more.

This focus on prudential regulation – designed to minimize systemic risk and maximize safety and soundness does indeed diminish the possibility of future crises. It limits downside potential and serves as a hedge against disaster.

But we also need a market finance system that can raise tens or hundreds of millions of dollars to turn innovative ideas into big things – pharmaceutical breakthroughs, renewable energy, electric cars – products and services that transform economies and create jobs on a national or even an international scale. And that means that we need regulation which is focused not only on minimizing risks to the larger financial system, but also on minimizing unnecessary risks to those who provide capital for these projects – our nation's investors.

What does that mean?:

- Regulation that is focused on detecting and preventing fraud – as we are now doing with proprietary algorithms that detect irregularities in hedge fund filings and single out some for closer scrutiny, and a state-of-the-art nationwide tips system and a whistleblower program that combine to give us an unprecedented ability to process information that comes to us from outside.
- A regulatory system that is capable of detecting and deterring market manipulation – as we do when we break up the largest insider trading ring ever unveiled or swiftly freeze the proceeds of potentially illegal trading in overseas accounts.
- Regulation focused on assuring that companies make available the information investors need for educated decision-making – as we did in reviewing offering documents for significant IPOs last year, focusing on

issues including appropriate use of non-GAAP measures and disclosure of dual-class voting structures.

- And regulation that supports investor confidence in the architecture and technology of the exchanges and other large players in the markets – a commitment that we demonstrated by approving strict market access rules, more effective circuit breakers and more sophisticated limit-up, limit-down strategies. And a commitment that we will continue to demonstrate by moving forward on a regulation that will mandate minimum system compliance and integrity – including appropriate testing and reporting.

Investment involves risk. That is not a problem so long as the risks that investors face are those inherent to the businesses in which they choose to invest– and not risks of fraud, market manipulation or lack of access to what former Chairman William O. Douglas called “full, accurate, and intelligible” information.

In addition to an enhanced emphasis on system-wide stability, the SEC is focused as well on individual investors and – as much as feasible in a dynamic capitalist system – taking unnecessary risk out of taking an investment risk. That voice and that perspective, of the investor, must remain an important part of the global dialogue.

You need, as any pilot will tell you, both wings to soar.

The dynamism that drives real growth year-after-year comes from people willing to take a risk: entrepreneurs and the investors who support them.

Henry Ford worked 10 years – going through three corporate structures – before launching a successful company. The Detroit Auto Company failed. He was forced out of his second company, which became Cadillac. And a partnership with the Dodge Brothers almost collapsed before being restructured as the Ford Motor Company that survives today. Ultimately, Ford turned to a group of friends and associates to raise the capital he needed and support the venture for another five years until the Model T ensured the venture’s success.

A low-percentage, high-payoff proposition like this simply isn’t suited to many commercial banks or many investors. They are risky endeavors and most such enterprises fail even today. A recent study by Harvard Senior Lecturer Shikhar Ghosh found that three of four Silicon Valley startups fail.

The average investor should not risk his retirement savings in a startup. Ford’s initial backing came from sophisticated private capital – and there continues to be a group of knowledgeable, sophisticated investors with adequate resources to make these types of long-shot investments.

But these sophisticated investors deserve protection too. Regulators should protect them against fraud and take steps to ensure that those who invest actually are sufficiently sophisticated and able to bear the risk.

But there’s a second chapter to stories like Ford’s that may be more interesting to this audience, and is more interesting to me, as well, because it involves my dear Aunt Millie.

For those who don’t know her, my Aunt Millie is a retail investor, an accredited one, but with a modest portfolio. She hopes to retire in the near future, but has an even greater hope of living a fulfilling life thereafter. Aunt

Millie is not a market expert, but she understands that there are risks to the market and wants to understand those risks and invest her money accordingly. She's not the type to follow the news of upcoming IPOs, but in her investment lifetime she has invested both in equities and fixed income. And she realizes that her market investments, not a savings account paying near-zero interest, give her the greatest chance to sustain the retirement she deserves.

As some of you already know, the Aunt Millie that I have invoked so many times is fictional. But she serves as a reminder of why we do what we do at the SEC.

Companies raising private capital are largely concerned with a handful of sophisticated angel investors or venture capital firms. Soon, crowdfunding will bring the potential for a broader range of investors to provide private capital, although their investments will be and should be limited.

But once a company decides to go public, you and I and millions of other investors become part of the equation. Not only does the IPO itself bring the potential for investments by the general public, but the prospect of a liquid secondary market, with investors who will trade millions of shares of a public company over the course of decades, is one of the keys to a successful public offering. Without confidence in a vibrant, liquid secondary market, who would lock a substantial portion of their personal or institutional wealth into the performance of a largely untested enterprise?

This means every person in this room, retail investors across America, institutional investors, and my Aunt Millie must be confident that they have access to accurate and timely information, and that when they enter the securities markets they are protected from unnecessary risks like fraud, manipulation, insider trading and market structure failures. While, as I've noted, investment by definition involves some risk, investors will not take risks if they are not confident that they will be protected from fraud and market abuse.

That is why it is so important that we at the SEC and others in market regulation make our voices heard in the era of post-crisis financial regulation. Bank capital requirements are important, as is increased prudential regulation of systemically important financial institutions. But as we work to limit systemic risk, we don't want to discourage all risk-taking.

There are encouraging signs that we are walking that line. According to new data compiled by our Division of Risk, Strategy and Financial Innovation, for the first time since the financial crisis the amount of money raised in public debt and equity offerings is rising – up 22 percent last year. It's important that we embrace a regulatory agenda that is consistent with continued growth in public offerings.

Think about a young company as it grows and expands. It might begin life with a loan from a local bank, and then attract private capital from qualified investors looking to profit when the company goes public. Post-IPO, in order to do business on a day-to-day basis and to continue to profit and grow, it will rely on access to cash flow, short-term debt, foreign exchange and any number of other banking functions that we might think of "routine" but which are often quite sophisticated.

And even as that company matures, it may rely on the financial markets to provide longer-term, higher-risk capital through publicly traded securities –

or maybe even finance a merger or beneficial acquisition. Loss of investor confidence could cripple its ability to expand, innovate and invest in its operations.

Once upon a time, investments were made on the basis of personal relationships – handshake deals that sent ships to the Spice Islands, or built a factory for turning out cars. In today's more anonymous markets, where so much turns on Aunt Millie's willingness to invest her hard-earned dollars in people she has never met and companies she knows only from their filings, handshakes are no longer enough. We need another mechanism for inspiring that same trust. And that trust must be justified.

That's what we do. We work to ensure that Aunt Millie has access to the information she needs to make truly informed investment decisions. We work to ensure that she can buy securities in a fair and efficient marketplace.

Not long ago, I listened to an SEC employee who had recently recovered from a serious illness talk very personally about her job – describing her thoughts as she was being drawn into one of those huge, expensive, and indispensable body scanners that are so much a part of modern medicine.

Now, this is something that only an SEC alum would think about, while lying there with a body full of radioactive dye and her life potentially on the line, so this is the perfect audience, I guess.

This woman looked up at the metal cylinder drawing her in, overcame the clanging that pounded in her ears and thought: "If we don't do our jobs right, these machines don't get built."

If the SEC, and all of us here don't do our jobs right ... if we can't keep the market finance system fair and efficient ... if we can't protect the investors in our markets, then new investors won't come forward if we can't help build justified investor confidence, and medical innovations won't get built.

That's the job we do every day – setting the stage for entrepreneurs and investors to change our economy and our lives. We have a unique and uniquely important role to play in the American economy. And I can truthfully say – knowing many of you as well as I do – the American people are very fortunate to have so many brilliant and dedicated men and women committed to doing this vital work.

Your mission is my mission. And wherever I am, it is a mission I will fight for and support every opportunity I have.

Thank you.

<http://www.sec.gov/news/speech/2013/spch022213ebw.htm>