• Richard Nixon

Statement on Signing the Securities Investor Protection Act of 1970.

December 30, 1970

I AM SIGNING today the Securities Investor Protection Act of 1970. This legislation establishes the Securities Investor Protection Corporation (SIPC), a private nonprofit corporation, which will insure the securities and cash left with brokerage firms by investors against loss from financial difficulties or failure of such firms. Protection is provided up to an aggregate of $50,000 per account, with a limit on coverage of cash of $50,000.

In my message on economic policy and productivity on June 17, 1970, I urged the formation of a corporation to afford protection to small investors, backed first by industry payments and then by funds from the U.S. Treasury. The bipartisan efforts of the Congress, the administration, and the industry have now resulted in this legislation--a vitally important advance in the consumer-protection field.

Just as the Federal Deposit Insurance Corporation protects the user of banking services from the danger of bank failure, so will the Securities Investor Protection Corporation protect the user of investment services from the danger of brokerage firm failure.

This act protects the customer, not the broker, since only the customer is paid in the event of firm failure. It does not cover the equity risk that is always present in stock market investment, but it will assure the investor that the solvency of the individual firm with which he deals will not be cause for concern. It protects the small investor, not the large investor, since there is a limit on reimbursable losses. And it assures that the widow, the retired couple, the small investor who have invested their life savings in securities will not suffer loss because of an operating failure in the mechanisms of the marketplace.

Virtually all brokers and dealers in the securities industry will be members of SIPC. These members will provide $75 million from assessments, trust fund transfers, and lines of credit from commercial banks within 120 days. The industry will continue to pay assessments based on a percentage of their gross revenues until the fund reaches $150 million. If, contrary to expectations, this fund at any time should prove inadequate, SIPC may also call upon a $1 billion line of credit from the U.S. Treasury. Any funds provided by the Treasury will be recovered from subsequent assessments.

This legislation contains a specific statutory mandate to the Securities and Exchange Commission to promulgate rules and regulations with respect to the financial responsibility and related practices of brokers and dealers. The SEC is given flexibility in establishing those rules and regulations.

The functioning of the securities industry is a key element in providing the means for continued growth of American business and the economy of this country. Protection for the customer is essential, and has been provided here, as in the mutual fund bill [Public Law 91-547] which I recently signed. The Government and the industry must work together on seeking prompt solutions to the problems of the securities business. While those problems are being defined and resolved, the user of investment services, the small investor, will be protected.