Market Regulation

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WHAT'S COVERED

In this lesson, you will learn about the Securities Act of 1933, the Securities Exchange Act of 1934, the Securities Act Amendments of 1975, and the Sarbanes-Oxley Act of 2002. Specifically, this lesson will cover:

1. Securities Act of 1933/Securities Exchange Act of 1934

The first major securities act was the **Securities Act of 1933**. This was largely focused on consumer protection, which could be expected because of the country being deep in the Great Depression. The objective of the 1933 act was to provide investors with material, financial, and other information about corporations who were issuing public securities and to prevent fraud in the offering of those securities. The act was meant to ensure the buyers received complete and accurate information before they invested.

It also required that securities being offered or sold to the public in the United States be registered with the **U.S. Securities Exchange Commission (SEC)**. Another requirement involved the seller of securities in the primary or the secondary market to file registration statements, which is also called a prospectus. Recall that a prospectus is a document that the issuer has to market its securities to investors. It describes the offering that is up for sale, provides information about management, and provides financial statements audited by public accountants.

A year later, the **Securities Exchange Act of 1934** was passed. This act governs the secondary trading of stocks and bonds in the United States. This act was substantial in scope because it formed the basis for regulation of the markets in the United States. It also established the SEC, the primary enforcement agency of securities law.

TERMS TO KNOW

Securities Act of 1933
A consumer protection law to ensure that buyers of securities receive complete and accurate information before they invest.

U.S. Securities and Exchange Commission (SEC)
A federal agency that holds primary responsibility for enforcing the federal securities laws and regulating the securities industry, the nation's stock and options exchanges, and other electronic

securities markets in the United States.

Securities Exchange Act of 1934

A law governing the secondary trading of securities, financial markets, and their participants.

2. Securities Exchange Act Amendments of 1975

Amendments to the Securities Exchange Act that were passed in 1975 are also known as the**National Exchange Market System Act**. This directed the Securities and Exchange Commission to work with the industry toward establishing a national market system, along with a nationwide clearance and settlement of securities transactions.

The **National Market System (NMS)** sought to transmit transaction information in real time, supported by the then current improvements in technology and communication. The transactions were sent to the Securities Industry Automation Corporation, the SIAC, where data is compiled and distributed.

This new national marketing system plan was regulated by Regulation NMS, which was a sequence of steps to modernize and strengthen the system for trading equity securities. Until this time, different regional markets were very fragmented and dealers could not compare prices of stocks in each of those markets. Congress authorized the SEC to facilitate this.

Provisions included:

- Order Protection Rule (Priority for quotes that are immediately accessible)
- Access Rule (Requiring access to market data such as quotes)
- Sub-Penny Rule (Setting minimum price requirements)

TERMS TO KNOW

National Exchange Market System Act

Amendments that established a national market system for the nationwide clearance and settlement of securities transactions.

National Market System (NMS)

The national system for trading equities in the United States.

3. Sarbanes-Oxley Act of 2002

As technology and the speed of market transactions rapidly increased, there became greater opportunities and more frequent occurrences of fraudulent activities. This reached a peak with the passage of the **Sarbanes-Oxley Act of 2002**. This was a federal law that set new standards for companies and accounting firms. Also known as SOX, the law provided for much more severe penalties and increased oversight. Since then, other countries have been forced to apply stricter financial government laws as well.

SOX provisions included:

- Independent oversight of accounting firms providing audit services
- Standards for auditor independence including assignment rotation and reporting requirements

- Personal responsibility of corporate executives for the accuracy of financial reports
- Improved financial reporting requirements that required security analysts to report any potential conflicts of interest
- Restore investor confidence by providing the SEC authority to bar individuals from practice, including brokers and dealers
- Heightened penalties for fraud and white-collar crimes
- Requirement for CEO to sign company tax return

TERM TO KNOW

Sarbanes-Oxley Act of 2002
A federal law that set new or enhanced standards for all public company boards, management, and public accounting firms in the United States.

SUMMARY

In this lesson, you learned that key market regulations started with the **Securities Act of 1933**. Coming out of the depression, it was focused on buyer protection and ensured that investors had good information on potential investments. One year later, the **Securities Exchange Act of 1934** was put into force governing the secondary trading of securities.

The **Securities Exchange Act Amendments of 1975** and advances in technology allowed for the development of a national market system through which securities transactions could be transmitted in real time. Its transaction speed and technology advanced, which led to more occurrences of fraud. This led to the passage of the **Sarbanes-Oxley Act of 2002**, which heightened penalties for fraudulent activities by independent auditors and accountants and assigned personal responsibility to senior management for financial reporting.

Best of luck in your learning!

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