THE REGULATORY PYRAMID

The U.S. securities regulates itself in a careful and through manner. The market protects and maintains its integrity through the combined efforts of four basic groups. Together these groups form what the industry refers to as the Regulatory Pyramid. This how it is structured. Individuals or organizations who violate the SEC's rules and standards are subject to harsh penalties, including fine, suspension of license, and permanent expulsion from the securities market.

GROUP 1
U.S. Congress

The U.S. Congress forms the peak of the regulatory pyramid. Congress created the SEC and is responsible for insuring that the SEC has the power to function effectively. It also decides when changing conditions in the investment world require new laws and new organizations, such as the Securities Investor Protection Corporation (SIPC). Congress established SIPC in 1970 to insure the cash and securities in customer accounts of brokerage firms in case the firm failed. One of the four levels in the regulatory pyramid, the NYSE takes the greatest share of the responsibility for safeguarding the markets. That's because nearly 95 percent of all cash and securities in U.S. brokers' accounts come under NYSE regulation.

GROUP 2
The Securities and Exchange Commission (SEC)

On the next level of the pyramid is this watchdog federal agency created by the Securities Exchange Act of 1934. As previously discussed these Acts require the registration of new securities, the timely and accurate release of pertinent information by the issuing company, and the strict enforcement of the anti-fraud provisions of both Acts. In addition, the SEC supervises all national exchanges, investment companies, over-the-counter brokerage firms, and just about every organization and company that participates in securities markets. The SEC also recommends that Congress create new legislation, when necessary, to protect the markets.

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GROUP 3
The NYSE and Other Self-Regulatory Organizations

On the next level of the pyramid are the stock exchanges. The NYSE is the most active self-regulator in the securities industry. The NYSE has established and published 1,000 pages of rules, policies, and standards of conduct for its member organizations. And these standards are applied to every member in the NYSE's investment community. The NYSE's team of regulators use on-site examination and state-of-the-art computer surveillance equipment to detect those individuals and organizations who violate the NYSE's standards of conduct. The Intermarket Surveillance Group (ISG) includes exchanges around the world and the NASDR that work with each other to share particularized trading activity.

GROUP 4
Individual Brokerage Firms

The broad base of the pyramid consists of nearly 300 brokerage firms that are members of the NYSE. These firms, which buy and sell stock for customers around the world, ensure that their employees are highly trained and meet rigorous industry standards. They are also responsible to their customers to obtain the best execution possible on their orders. The NYSE conducts a thorough examination of each member firm that does business with the public at least once a year. Self-regulation – the way the securities industry monitors itself to create a fair and orderly trading environment – begins here.

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