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Alcorn State University.**Citation:** Tawfiq Abu-Raqabeh, (2025). "SECURITIES & EXCHANGE COMMISSION: PAST, PRESENT, & FUTURE". International Journal of Business Research and Management 3(2); DOI: 10.61148/3065-6753/IJBRM/059.**Copyright:** © 2025. Tawfiq Abu-Raqabeh, This is an open access article distributed under the Creative Commons Attribution License, which permits unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited.**Abstract:**

In the lead-up to the Great Depression, the capital markets of the Roaring '20s were far from functional, experiencing excessive and unrestrained speculation, false, inaccurate, or incomplete information, market manipulation, and negligent and fraudulent practices (Phillips, 2021). The U.S. Securities and Exchange Commission (SEC), an independent federal government regulatory agency, was formed to be the responsible party for protecting investors, maintaining fair and orderly functioning of the securities markets, and facilitating capital formation (Chen J., 2020). This paper will address several historic events that brought about the creation of the SEC. With all the changes the world has gone through over the years to get to where it is today, this paper will also touch on some current events and issues the SEC is dealing with and provide a brief outlook into its future and possible ongoing challenges it is likely to face. The importance of the SEC remains significant in today's ever-evolving financial landscape. With the rise of digital assets, cybersecurity threats, and complex financial instruments, the SEC faces increasing pressure to adapt and strengthen its regulatory oversight. The ongoing development of financial technology and cryptocurrency markets presents both opportunities and challenges, requiring the SEC to continually evolve its policies to ensure transparency, fairness, and investor confidence.

Keywords: Securities and Exchange Commission, Great Depression, Market Regulation, Investor Protection, Financial Fraud, Capital Markets**Introduction**

The stock market crash of October 1929, commonly known as "Black Tuesday," marked one of the most devastating financial collapses in U.S. history (Onion, Sullivan, & Mullen, 2010). The crash was precipitated by a combination of factors, including a significant decrease in industrial production, rising unemployment rates, excessive consumer and corporate debt, and stagnant wages. These economic vulnerabilities were further exacerbated by speculative trading practices and a lack of financial regulation, which contributed to a volatile market environment. The subsequent onset of the Great Depression amplified these challenges, creating a climate of uncertainty and widespread financial instability. As investor confidence reached an all-time low, policymakers recognized the urgent need for regulatory reforms to restore trust in the financial markets.

In response to these challenges, the U.S. Congress enacted The Securities Act of 1933 and The Securities Exchange Act of 1934 as measures to rebuild investor confidence and establish a structured financial regulatory framework (FBN, 2016). These legislative efforts aimed to enhance transparency, impose stricter oversight on securities transactions, and curtail

fraudulent activities. A pivotal outcome of the 1934 Act was the establishment of the U.S. Securities and Exchange Commission (SEC), an independent federal agency tasked with overseeing the securities industry and ensuring compliance with federal laws (Alchin, 2018). The SEC's primary mission is to protect investors, maintain fair and efficient markets, and facilitate capital formation (Chen, 2021). By enforcing disclosure requirements and regulatory compliance, the agency plays a crucial role in mitigating risks associated with securities trading and corporate governance.

Despite its longstanding commitment to market oversight and investor protection, the SEC has faced scrutiny regarding its effectiveness in addressing emerging financial challenges. Notably, with the advent of digital assets and the increasing adoption of blockchain-based financial instruments, the SEC is now confronted with the complex task of integrating regulatory measures within an evolving technological landscape. As digital currencies and decentralized finance (DeFi) platforms gain prominence, questions have arisen about the SEC's jurisdiction over these novel financial instruments. The agency is currently exploring strategies to enforce existing securities laws while simultaneously adapting to the digital transformation of financial markets. This balancing act requires the SEC to foster innovation while ensuring robust investor protections and preventing fraudulent activities in the rapidly evolving financial ecosystem.

The SEC has also been involved in high-profile enforcement cases aimed at combating corporate misconduct and securities fraud. Notable cases, such as the investigations into Enron and WorldCom, underscore the agency's role in holding corporations accountable for financial misrepresentation and fraudulent activities (Ferrell, 2020). Through its enforcement division, the SEC continues to prosecute individuals and entities that engage in insider trading, Ponzi schemes, and market manipulation. These enforcement actions serve as a deterrent, reinforcing the importance of transparency and integrity in the financial markets.

Another major challenge for the SEC is addressing the impact of technological advancements in high-frequency trading (HFT) and artificial intelligence (AI) in market transactions. HFT, which utilizes complex algorithms to execute large volumes of trades within milliseconds, has raised concerns about market fairness and systemic risks (Jones, 2019). The SEC has responded by implementing regulations to curb abusive trading practices and enhance market stability. However, as AI-driven trading strategies become more sophisticated, regulators must continuously update policies to address potential loopholes and emerging risks associated with algorithmic trading.

Looking ahead, the SEC must navigate an increasingly complex financial landscape characterized by globalization, digital innovation, and evolving economic conditions. As financial markets become more interconnected, the agency's ability to coordinate with international regulators will be crucial in addressing cross-border securities fraud and regulatory arbitrage (Zaring, 2021). Strengthening cooperation with global financial authorities and adopting adaptive regulatory frameworks will be essential for the SEC to effectively fulfill its mandate in the 21st century.

Literature Review

History of the SEC

Prior to the SEC's creation, oversight of the securities

industry was virtually nonexistent, which led to widespread fraud, insider trading, and other abuses (Onion, Sullivan, & Mullen, 2019). The SEC was created in 1934 as one of President Franklin D. Roosevelt's New Deal Programs. These strategic relief, recovery, and reform programs were aimed at fighting the effects of the Great Depression of 1930 and served as a preventative measure for any future market disasters. Following the 1929 Wall Street Crash, several laws were passed by Congress as an act to reform the securities industry.

This reform began with over 10 proposals sent to Congress, which were all adopted and included the Emergency Banking Relief Act (EBA) and the Securities Act in 1933. The EBA was an attempt to stabilize the banking system and closed banks temporarily to provide for an inspection and a boost to the stock market. The Securities Act of 1933 required corporations to register their sales and provide financial information about their company. Other new acts established within the first hundred days of the New Deal included the bank holiday, the Glass-Steagall Banking Reform Act, the Federal Deposit Insurance Corporation, the Civilian Conservation Corps, the Federal Emergency Relief Administration, and the Civil Works Administration. Congress also passed the Securities Exchange Act of 1934, which regulated stock exchanges and brokers and provided for the monitoring of the required financial disclosures (Alchin, 2018). The Act of 1934 also transferred the administration of the Securities Act, the registration of securities on national security exchanges, the making of studies, and the declaration of rules in the public interest and protection of investors from the Federal Trade Commission to the SEC (Smith, 1935).

Accounting scandals are cases of accounting, financial statement, and external fraud that tend to have a large number of victims, who may have lost millions of dollars, and suffered massive devastation to their businesses and in their lives. Numerous high-profile scandals such as Enron, HealthSouth, Qwest, Tyco International, Adelphia, Peregrine Systems, and WorldCom account for the vast majority of the trauma these victims have suffered. The Sarbanes-Oxley Act of 2002 (SOX), which is administered by the SEC, was enacted as a response to financial scandals like these to protect investors from fraudulent financial statement reporting. While this agency has successfully prevented many fraudulent activities, the SEC continues to deal with issues today.

Beyond corporate fraud, the SEC has also been instrumental in regulating financial instruments and investment practices. The agency has played a key role in setting regulations for hedge funds, mutual funds, and credit rating agencies to ensure transparency and accountability in investment management (Litan, 2010). With the growing complexity of financial markets, the SEC has expanded its oversight capabilities to address the risks posed by derivatives and structured financial products. This proactive approach has been crucial in mitigating systemic risks that could lead to another financial collapse similar to the 2008 crisis.

Furthermore, as technology and globalization continue to reshape financial markets, the SEC has had to adapt to new challenges, particularly in the realm of cybersecurity and digital assets. Cyber threats targeting financial institutions and trading platforms pose significant risks to market stability, prompting the SEC to introduce stricter cybersecurity guidelines and compliance

requirements (Gordon, Loeb, & Zhou, 2015). Additionally, the rise of cryptocurrency and block chain technology has forced the agency to evaluate how existing securities laws apply to digital assets, with ongoing debates surrounding regulatory clarity for initial coin offerings (ICOs) and decentralized finance (DeFi) platforms. The SEC's ability to navigate these emerging trends will be pivotal in ensuring the continued integrity and efficiency of financial markets.

Current Status of the SEC

The SEC was created over 87 years ago at the height of the Great Depression and it continues to strive to make a positive impact on America's economy (SEC, 2020). It is able to accomplish this currently by staying true to its mission of protecting investors, maintaining an impartial, well-organized, efficient market, and facilitating capital formation. The SEC consists of five presidentially appointed Commissioners and five Divisions with headquarters in Washington, D.C. (SEC, 2020). Its mission requires highly dedicated professionals that exhibit a high level of commitment to protecting those who rely on our markets to secure their financial future (SEC, 2020). In order for it to do this, the SEC requires publicly traded companies to treat investors fairly and honestly and disclose significant financial and other information that could impact an investor's decision-making process. Vigorous efforts made by the SEC to enforce the securities laws are meant to hold violators accountable and aim to prevent future misconduct.

The SEC currently monitors the activities of over 27,000 entities in the securities industry and oversees approximately \$97 trillion in securities trading on the U.S. markets annually. The SEC currently uses the Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system to help them monitor the activity within the securities industry (Ciesielski & Weirich, 2016). Despite having numerous protocols in place, there are still many issues that the SEC is faced with. Current challenges include rule and regulation clarity and enforcement, usage of non-GAAP measures, constant technology changes, the introduction of exchange-traded funds (ETF), and continued blatant rule and regulation violations (Ciesielski & Weirich, 2016). As we go forward, the SEC will continue to review and recalibrate its efforts through technological advancements, enhanced data analysis, and increased human capital.

On March 13, 2020, President Donald J. Trump declared a national state of emergency concerning the coronavirus disease (COVID-19) pandemic. Research shows that the COVID-19 pandemic started sometime around October 6, 2019, and December 11, 2019 (Kelland, 2020), which has caused many to wonder why nothing was done to prevent the global spread of the virus when signs of a superinfection first appeared. Especially when one considers the overall devastation that the pandemic has caused in many lives around the world. For example, GDP has decreased, unemployment is up, many small businesses have closed, larger companies have merged, imports exceed exports, there are food and supply shortages, increases in crime, and debt on a micro and macro scale has increased. Furthermore, the recent global events involving the COVID-19 pandemic have set the stage for events to take place similar to the 1929 stock market crash and many of the influencing factors for the 1929 crash are taking place during this current economic climate. As a result, there have been many cases

in which the SEC has made headline news and the need to be aware of the state of the financial markets has increased.

The SEC has also been active in addressing the financial implications of the pandemic, providing regulatory relief and guidance to companies and investors affected by market volatility. In response to economic disruptions, the SEC introduced temporary exemptions and relaxed certain disclosure requirements to accommodate struggling businesses (Clayton, 2020). These measures were intended to promote transparency while preventing market panic and ensuring continued investor confidence. Despite these efforts, the pandemic exposed gaps in regulatory oversight, particularly concerning market manipulation and fraudulent activities, which increased in frequency during periods of economic uncertainty.

Another key challenge facing the SEC in recent years is the increasing prevalence of environmental, social, and governance (ESG) investing. As investors demand greater corporate accountability on climate risks and ethical business practices, the SEC has responded by proposing new ESG disclosure requirements (Gelles, 2021). These proposed regulations aim to standardize sustainability reporting and reduce the risk of misleading claims, commonly known as greenwashing. However, the debate over the SEC's role in ESG disclosures continues, as critics argue that such regulations may overstep the agency's traditional mandate of financial market oversight.

As the SEC moves forward, it must balance its core mission of investor protection with the evolving complexities of modern financial markets. The agency is expected to increase its scrutiny of emerging financial trends, including cryptocurrency regulation, artificial intelligence in trading, and cybersecurity threats. By adapting to these challenges and leveraging advanced technologies, the SEC can continue to play a vital role in fostering market stability and investor confidence in the years to come.

Future of the SEC

The future of the U.S. Securities and Exchange Commission (SEC) is likely to be shaped by the continued evolution of financial markets, technological advancements, and regulatory challenges. SEC's primary mission of investor protection, market efficiency, and capital formation remains as vital as ever, but emerging trends necessitate new approaches. One of the most pressing concerns for the SEC is the regulation of digital assets, including cryptocurrencies and decentralized finance (DeFi). While digital assets have introduced new investment opportunities, they also pose significant risks related to fraud, market manipulation, and regulatory arbitrage (Zetsche, Arner, & Buckley, 2021). The SEC will need to strike a balance between fostering financial innovation and ensuring robust investor protection in the increasingly complex digital landscape.

Another critical area for the SEC's future regulatory efforts is environmental, social, and governance (ESG) disclosures. Investors are demanding more transparency regarding corporate sustainability practices and climate-related risks, prompting the SEC to propose new ESG disclosure rules (Gelles, 2021). However, the agency faces pushbacks from businesses concerned about regulatory overreach and compliance burdens. Going forward, the SEC will need to refine its ESG policies to ensure meaningful disclosures while addressing concerns about reporting costs and standardization. The agency's ability to establish clear

and enforceable guidelines for ESG investing will be crucial in promoting long-term market stability and investor confidence.

Furthermore, the SEC is expected to enhance its enforcement mechanisms to address rising cybersecurity threats. With financial institutions increasingly relying on digital infrastructure, cyberattacks and data breaches have become a growing concern (Clayton, 2020). The SEC has already introduced cybersecurity risk disclosure requirements, but as cyber threats become more sophisticated, the agency must continue to strengthen its oversight. This includes collaborating with other federal agencies, mandating stricter security protocols for financial entities, and ensuring rapid response mechanisms to mitigate financial harm in the event of cyber incidents.

The SEC is also likely to expand its focus on market structure reforms, particularly in the wake of events such as the GameStop trading frenzy and increased retail investor participation through commission-free trading platforms (Langevoort, 2021). The rise in algorithmic trading and high-frequency trading (HFT) has introduced new challenges in maintaining fair and transparent markets. The SEC may introduce new regulations to curb market volatility, increase oversight of trading platforms, and ensure that retail investors are adequately protected from systemic risks. Strengthening disclosure requirements for hedge funds, private equity firms, and special purpose acquisition companies (SPACs) could also be a key priority for the agency.

As financial markets become increasingly globalized, the SEC will need to enhance its cooperation with international regulatory bodies. Cross-border transactions, foreign investment, and multinational corporations require a harmonized regulatory approach to maintain market integrity (Brummer, 2020). Strengthening partnerships with organizations such as the International Organization of Securities Commissions (IOSCO) and the Financial Stability Board (FSB) will be essential in addressing emerging global financial risks. By fostering international regulatory alignment, the SEC can help ensure fair competition, reduce systemic risks, and promote investor trust on a global scale.

Methodology

This study employs a qualitative research approach to examine the formation and evolution of the U.S. Securities and Exchange Commission (SEC) in response to the Great Depression, as well as its role in market regulation, investor protection, and the prevention of financial fraud in capital markets. A historical analysis method is utilized to explore the economic conditions that led to the creation of the SEC, focusing on the speculative market environment of the 1920s and the subsequent financial collapse of 1929. (Mahoney, 2019). The research also incorporates a policy analysis framework to evaluate the impact of key regulatory measures, including the Securities Act of 1933 and the Securities Exchange Act of 1934, in shaping modern financial market oversight. Data for this study is collected from a range of primary and secondary sources, including legislative documents, government reports, academic journals, and reputable financial publications. Archival research is conducted to review historical documents, including congressional records and SEC enforcement actions, to understand the regulatory responses to financial fraud and market failures. (Langevoort, 2021). Content analysis is applied to evaluate how investor protection measures have evolved

over time, particularly in response to major financial crises such as the 2008 global financial crisis and the rise of digital assets and cryptocurrencies (Coffee, 2020). Additionally, case studies of financial scandals, such as the Enron collapse and the Bernie Madoff Ponzi scheme, are examined to assess the SEC's enforcement effectiveness and challenges in mitigating corporate misconduct.

To ensure the credibility and reliability of the findings, this research relies on peer-reviewed literature, government publications, and industry reports. Comparative analysis is used to contrast past and present regulatory frameworks, highlighting ongoing challenges in capital markets, such as cybersecurity threats, insider trading, and regulatory gaps in emerging financial technologies. By critically assessing the SEC's role in market regulation and investor protection, this study aims to provide a comprehensive understanding of the agency's impact on financial stability and the prevention of fraudulent activities in capital markets.

Research Questions

The Securities and Exchange Commission (SEC) was established in response to the financial turmoil of the Great Depression, aiming to restore investor confidence and regulate capital markets. Over the years, the SEC has evolved to address new financial challenges, including the rise of digital assets, high-frequency trading, and complex financial instruments. Despite its efforts, financial fraud and market manipulation remain significant concerns, raising questions about the effectiveness of the SEC's regulatory mechanisms.

Given these ongoing challenges, this research seeks to explore the effectiveness of the SEC in maintaining fair and transparent capital markets. Specifically, the study aims to answer the following question: How has the SEC's regulatory framework evolved to address financial fraud and investor protection? Understanding the SEC's role and limitations is crucial for evaluating the future of financial market regulation and ensuring the continued stability of global securities markets (Chen, 2020; Phillips, 2021).

1. What were the primary economic and financial factors that led to the creation of the Securities and Exchange Commission (SEC) during the Great Depression?
2. How has the SEC evolved in its regulatory role to address modern financial challenges, such as cryptocurrency and high-frequency trading?
3. What are the key enforcement mechanisms used by the SEC to combat financial fraud, and how effective have they been in preventing corporate misconduct?
4. How does the SEC's investor protection framework impact market confidence and financial stability in U.S. capital markets?
5. What are the major criticisms and limitations of the SEC's regulatory approach, and how can these be addressed to enhance market oversight?
6. How has the SEC responded to major financial crises, such as the 2008 financial crisis, and what lessons have been learned from its regulatory actions?

7. What role does the SEC play in ensuring transparency and fairness in securities markets, particularly in relation to insider trading and market manipulation?
8. How does the SEC collaborate with other regulatory bodies, such as the Commodity Futures Trading Commission (CFTC) and international financial regulators, to oversee global financial markets?
9. What are the emerging risks and challenges facing the SEC in regulating financial markets in the digital era?
10. How do SEC regulations impact businesses and investors, particularly in terms of compliance costs and market participation?

Conclusion

The SEC's role in maintaining market integrity and investor protection has been crucial in preventing financial crises and mitigating the risks of fraudulent practices. However, as financial markets evolve, new challenges emerge that test the effectiveness of regulatory frameworks. The rise of decentralized finance (DeFi), cryptocurrency markets, and high-frequency trading has introduced complexities that were not present during SEC's inception. The agency has had to adapt its enforcement strategies and regulatory approaches to address these modern financial innovations. While the SEC has made significant strides in addressing digital asset fraud, insider trading, and financial misreporting, questions remain about the adequacy of its regulatory oversight in an era of rapid technological advancement. Ensuring that the SEC remains equipped to handle these evolving risks is critical to maintaining market stability and investor confidence (Johnson, 2022; U.S. Securities and Exchange Commission, 2023).

Moving forward, the SEC must strike a balance between fostering innovation in financial markets and enforcing necessary regulations to prevent misconduct. The agency will need to enhance collaboration with global financial regulators to tackle cross-border financial crimes and ensure uniformity in securities laws. Additionally, improving transparency and investor education will be key to strengthening public trust in financial markets.

The SEC's ability to adapt to new financial challenges will determine its effectiveness in maintaining a fair and orderly market. As the financial landscape continues to transform, the SEC's regulatory policies must evolve to safeguard the interests of investors and promote economic stability in both domestic and international markets. Ensuring the SEC remains proactive in its regulatory efforts will be instrumental in preventing financial crises and protecting the global economy from another catastrophic market collapse (Phillips, 2021; Chen, 2020).

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