

Congress of the United States
House of Representatives
Committee on Interstate and Foreign Commerce
Room 1334, Longworth House Office Building
Washington, D.C

December 10, 1963

Mr. William L. Cary, Chairman
Securities and Exchange Commission
Washington, D. C.

Dear Mr. Chairman:

As you know, for some time I have been interested in the activities of the Commission in carrying out the Special Study that the Congress directed it to make relating to the adequacy, for the protection of investors, of the rules of national stock exchanges and national securities associations, and during the last few weeks of hearings upon the Commission's recommendations for legislation growing out of this Study, I have followed with close attention your testimony both as to the legislative recommendations and as to other matters which the Commission has taken up or intends to effectuate through its rule-making powers.

In the midst of these hearings has occurred the most unfortunate insolvency a member of the stock exchange, stemming apparently from an overextension of the member's position in commodities rather than in securities.

I am informed that it is the practice of the New York Stock Exchange in making the financial audits of its members to confine such audit only to its members activities in the securities fields and does not cover the members' activities on the commodities or other fields. This is most amazing and I hardly can believe that I am accurately informed inasmuch as it has appeared over the years and appears now in connection with the current Commission's Special Study that there is very limited protection to the securities customer through any rules requiring the segregation of trusteeing of customers accounts in the securities end of the business.

I am aware that during the past years we have had several occasions to discuss the Commission's audit activities and on those occasions have made inquiry into the frequency of the Commission's audit and how often the Commission covered all of the members of the Exchange as well as the Commission's reliance upon the audit of the Exchange. It appears that our questioning at that time properly would have concerned itself also with the question of the scope of the Commission's audit as well as its frequency, and accordingly I now am writing to determine just what is the scope of the Commission's audit of its registered broker-dealers.

Sincerely yours,

OREN HARRIS, M.C.
CHAIRMAN