

November 23, 1934

To: The Executive Director  
The National Emergency Council

From: The Chairman of the Securities  
And Exchange Commission

There follows a summary of the activities of interest of the Securities and Exchange Commission Divisions since November 9.

The Chairman and Commissioners Landis and Pecora have taken advantage of opportunities presented by the occasion of public addresses to set forth to the public some chases of work recently done and policies recently adopted.

At New Orleans, November 12, Commissioner Landis presented to the National Association of State Security Commissioners the work being done in the development of adequate corporation reports. The progress being made in the registration or exemption of security exchanges was indicated, and the kind of investigations already made of actual stock exchange operations since October 1 was described. The intention of the Commission to exercise control of the over the counter security markets and the plan of establishing regional branches of the Commission at strategic points throughout the country to provide for adequate surveillance of these markets, was reported.

On November 15 Commissioner Pecora, at Toledo, outlined the general purposes and policies of the legislation creating the Commission and the legal means at hand to carry out the intentions of Congress in the control of both securities and their issuers.

At Boston on November 15, talking to the Boston Chamber of Commerce, the Chairman made the first official public statement concerning the effects of the Securities Act and the Securities and Exchange Act on the issuance of new securities giving detailed comparative costs of registration prior to and since the legislation, and detailed comparative figures showing the relative activity of security issuing business in Great Britain and the United States. In addition the Chairman forecast modifications of the Securities Act registration requirements decided upon after careful study and investigation which would remove many of the objections urged as a hindrance to new financing.

Reference to this address is of interest in this report because it occasioned the first general press editorial discussion of the actual effect of the new legislation upon the security business, most of which was extremely favorable, and the immediate reactions of the security market to the address were also favorable.

The General Counsel Division- Some of the developments referred to in the address above described were the activities of the Legal Department in bringing out the closing of the Boston Curb Exchange and the indicated suspension of the Hartford Stock Exchange (Connecticut). The Boston Curb Exchange first applied for exemption, which was denied, at a hearing conducted by the Commission examiners evidence was produced to show the Exchange was being used to facilitate the distribution off the Exchange of securities that had been refused registration under the Exchange Act in Massachusetts and that the Exchange was violating the national Securities and Exchange Act. Before the hearings were completed, the Exchange notified the Commission that it had decided to suspend operations. This Boston Curb incident furnishes a perfect illustration of the inadequacy of local and state laws to protect the investor against fraudulent securities and the manner in which the provisions of the Securities Exchange Act can be made to effectively reach and apply to fraudulent transactions which may escape local Blue Sky regulations.

The Hartford Stock Exchange applied for exemption from the necessity of registration as a national securities exchange and under the law hearings were to be held to determine the merits of this application. While investigations were being conducted the Exchange notified the Commission that it wished to withdraw its application for exemption, which permission was granted. The Exchange is now operating under the exemption granted all applicants which expires December 1 at which time suspension of operations is expected.

The Legal Division acting upon petitions of dealers and brokers worked out, with the Federal Reserve Board staff administering of Sections 7 and 8 of the Securities and Exchange Act (margin and credit provisions), important modifications of Federal Reserve Board Regulation T in order facilitate cash transactions and over the counter markets.

Current work includes the continuance of hearings under the Act on applications of some of the smaller Exchanges throughout the country for exemption from registration and the continued investigation of companies received from the public concerning alleged frauds in security sales previously enumerated. In addition Legal Department attorneys in the field have successfully brought about the closing of numerous fraudulent securities selling organizations such as, 'bucket shops', etc.

In the Examination Division 17 filings, 10 of which had been declared effective, 6 reorganization issues, and 1 of exchange securities issues have been recorded for the period of two weeks ending November 17. These issues represent an aggregate cash offering price of face value of reorganization and exchange securities of \$31,070,61. This brings total filings since January 1 to 632, of which 530 have been declared effective. Stop orders have been issued with respect to 19 applications, refusal orders in the case of one, refusal consent orders in the case of twenty four. Statements in the amount of 110 were withdrawn after filing

and there was one left under examination at the end of the period 98. Total effective new issues registered from January 1, 1934 to October 31, 1934 are estimated at \$1,000,000,000.

An interesting development in connection with the new issues in this period has been the fact that three large companies- Standard Oil Company of New Jersey, Consolidated Gas and Electric Company of Baltimore, and the Consumers Power Company of Michigan, have issued securities totaling \$63,000,000 (all bonds), which the Commission has declared exempt from registration requirements due to the fact that their distribution being confined to relatively few people (insurance companies, institutions, etc.) do not constitute public offerings. This private placing of new issues is an important development under the Act of a tendency which began in September when a total of \$12,000,000 in new issues were privately placed without the necessity of registration. It is too early to indicate the probable developments of a phenomenon which is now only possible because of the anomalous condition of the money market resulting from general industrial inactivity because it is to be assumed that when industrial activities attain anything like a normal rate the demand of business for capital will so increase that it will be impossible for corporation borrowings to be satisfied without such a solicitation of individual investment funds as to make registration under the Act imperative. Particular attention should also be made of the fact that the first foreign government issue to be registered under the Act was clearly during the past two weeks namely, - an issue of \$10,000,000 Fourth Serial, one to four year notes of the Republic of Finland.