

STOCK EXCHANGE PRACTICES

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY UNITED STATES SENATE

SEVENTY-THIRD CONGRESS

FIRST SESSION

ON

S. Res. 84

(72d CONGRESS)

A RESOLUTION TO INVESTIGATE PRACTICES OF STOCK
EXCHANGES WITH RESPECT TO THE BUYING AND
SELLING AND THE BORROWING AND LENDING
OF LISTED SECURITIES

AND

S. Res. 56 and S. Res. 97

(73d CONGRESS)

RESOLUTIONS TO INVESTIGATE THE MATTER OF BANKING
OPERATIONS AND PRACTICES, TRANSACTIONS RELATING TO
ANY SALE, EXCHANGE, PURCHASE, ACQUISITION, BORROW-
ING, LENDING, FINANCING, ISSUING, DISTRIBUTING, OR
OTHER DISPOSITION OF, OR DEALING IN, SECURITIES OR
CREDIT BY ANY PERSON OR FIRM, PARTNERSHIP, COMPANY,
ASSOCIATION, CORPORATION, OR OTHER ENTITY, WITH A
VIEW TO RECOMMENDING NECESSARY LEGISLATION, UNDER
THE TAXING POWER OR OTHER FEDERAL POWERS

PART 15

NATIONAL SECURITIES EXCHANGE ACT 1934

FEBRUARY 26 TO MARCH 16, 1934

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Senator BULKLEY. The easiest way would be to acquire separate residence.

Senator CAREY. Why did you not put the mother in there?

Mr. CORCORAN. They are both in.

Senator CAREY. A man might be dealing for his son.

Mr. CORCORAN. The bill says, a child or a parent.

Senator CAREY. The family is not all in.

Mr. CORCORAN. Yes; the whole family is in, sir.

Senator KEAN. That would prevent a son becoming a member of the exchange if his father dealt in securities.

Mr. CORCORAN. Only, sir, if it could be shown that the son was acting as a dummy for the father.

Senator KEAN. I do not know whether it would require a dummy or not.

Mr. CORCORAN. May I go on, Mr. Chairman?

The CHAIRMAN. Yes.

Mr. CORCORAN. We were on subparagraph (ii), on page 40, providing that after appropriate notice and opportunity for hearing the Commission may suspend the registration of a securities exchange; that is, withdraw its license to do business, or it may withdraw the registration of a particular security the issuer of which has failed to comply with the provisions of the act or the rules and regulations made thereunder. That is an enforcing provision to the effect that if an exchange will not comply with the act the Commission may shut up the exchange, or if the issuer of a particular security on the exchange will not comply with the act, the Commission may force the exchange to strike the security from the list, just as the exchange now, for reasons, strikes a security from the list when the issuer will not comply with the regulations of the exchange.

Senator GORE. It is your theory, at least, that most of the evils that proceed from dealing in stocks, and so forth, result from machinations and sinister activities on the part of the stock exchange as such, or from brokers and outsiders and officers and directors who are manipulating their own stock? Who is the chief sinner in this scheme?

Mr. CORCORAN. It is hard to tell who is the chief sinner, sir; there are so many sinners.

Senator GORE. I had figured that the stock exchange itself had not been so guilty.

Mr. CORCORAN. Not the New York Stock Exchange; but there are many others, sir.

Senator GORE. I know there are about 18 that operate more or less, and there are more than that that are inconsequential. Of course, the New York Stock Exchange is the head and front of the whole business. A great many abuses have been perpetrated by officers and directors and brokers and others.

Mr. CORCORAN. Your investigating committee can tell you more of that than I can.

Senator GORE. I am more or less familiar with that. I hesitate to strike with paralysis the exchange itself.

Mr. CORCORAN. Of course, this is the extreme remedy if everything else fails.

Senator GORE. Yes; capital punishment is the extreme limit; that is true.

Mr. CORCORAN. Somewhere abuses have to stop, sir.

Senator CAREY. There is no appeal from any ruling of the Commission, is there?

Mr. CORCORAN. Oh, yes; there is an appeal to the courts. But the findings of fact of the Commission, just as the findings of facts of a jury when you appeal to the upper court, are final.

Senator GORE. Which would be the worse—to “fly to evils that we know not of”—which would have more serious consequences, to allow the stock exchange to continue to function and limit your regulations largely to those who on the outside abuse the privilege afforded by the exchange, or just to close the exchange entirely and say, “We are going to cut this business out; you cannot operate this business; you cannot function at all”?

Mr. CORCORAN. I am one of those who just believe the stock exchanges have a function in the economic system; so you should not kill them.

Senator GORE. Do you underscore the word “just”—that you just believe?

Mr. CORCORAN. I withdraw that word, sir.

Senator GORE. I think it is further proof of your very keen intelligence.

Mr. CORCORAN. No; I believe in stock exchanges. I do not believe you should kill them. I do believe you should regulate them—not because I have any social philosophy in regard to the subject—but because as a sheer matter of economic wisdom they should be regulated. That is the only test of statesmanship. They have cost many millions of dollars; they have cost 12,000,000 men their jobs—

Senator GORE. Oh, yes; but you cannot center that on the stock exchange. The point is, would conditions be worse without any stock exchange at all than they are with it?

Mr. CORCORAN. Are you proposing to eliminate the stock exchanges completely?

Senator GORE. No. I was wondering if you were not; if it came to that.

Mr. CORCORAN. No, sir.

Senator KEAN. Are you not coming pretty near it under this bill?

Mr. CORCORAN. No.

The CHAIRMAN. Proceed, Mr. Corcoran.

Mr. CORCORAN. The next subsection is (iii) which permits the Commission to suspend any member or officer of an exchange who it finds is violating any provision of this act or the rules and regulations made thereunder, or has effected any transaction for any other person whom he has reason to believe is violating in respect of such transaction any provision of this act or the rules or regulations made thereunder. That is giving the Commission as a last resort the power to suspend a member.

Section 21 provides that all hearings by the Commission shall be public. There has been an objection made to that—that possibly trade secrets will be made public to the advantage of foreign competitors. I think we went over some of that ground yesterday—that there were very, very few of those secrets, anyway, and that there