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STATEMENT OF RALPH H. DEMMLER, CHAIRMAN
SECURITIES AND EXCHANGE COMMISSION, BEFORE THE
SUBCOMMITTEE ON INDEPENDENT OFFICES OF THE APPROPRIATIONS
COMMITTEE OF THE HOUSE OF REPRESENTATIVES

Mr. Chairman and members of the committee: My name is
Ralph H. Demmler. I am Chairman of the Securities and Exchange
Commission.

The gentlemen with me are (indicating):

Commissioner Paul R. Rowen

Commissioner Clarence H. Adams

Commissioner J. Sinclair Armstrong

Commissioner A. Jackson Goodwin, Jr. was

unfortunately called home to Alabama and is not
with us.

Edward T. Tait, my Executive Assistant

Byron D. Woodside, Director, Division of
Corporation Finance

Robert A. McDowell, Director, Division of
Corporate Regulation

Harold C. Patterson, Director, Division of
Trading and Exchanges

Charles R. McCutcheon, Assistant Director,
Division of Trading and Exchanges

William H. Timbers, General Counsel

William Becker, Director of Personnel, and

James J. Riordan, Budget Officer

Two positions are needed to conduct the studies of investment companies authorized by Section 14(b) of the Investment Company Act. The increase in the size of these companies indicates the advisability of such studies.

The total assets of open-end and closed-end management investment companies have increased from 1.6 billion dollars on June 30, 1941 to 8.5 billion dollars on June 30, 1954. Section 14(b) authorizes the Commission to make a study and investigation of these companies when it deems that any substantial increase in the size of investment companies creates problems involving protection of investors or the public interest. We are to report the results of the studies and investigations to Congress, with our recommendations. This study has never been undertaken, and the Congress has been so advised for several years in the Commission's budget submission. Taking into consideration the growing significance of investment companies as holders of equity securities traded in the market, we consider that the Congress should assume the responsibility for any further postponement of such a study of investment companies.

There are two functions under the Public Utility Holding Company Act for which no substantial funds are included in the 1956 estimate and which, therefore, will be practically dormant in the next fiscal

year. They concern (1) the enforcement of the requirement that a uniform system of accounts be maintained for registered holding companies and subsidiaries thereof, which are not public utility companies and are not subject to the accounting requirements of the Federal Power Commission or a State Commission; and (2) studies authorized and directed by Section 30 of the Holding Company Act. This is shown on Page 31 of the justifications.

We are requesting 14 additional positions for the Division of Trading and Exchanges. I should mention that this Division was reorganized last July. The former four branches were consolidated into two branches and 11 positions were abolished including two Assistant Directors. None of the additional positions requested for 1956 will re-create any of the positions abolished. Five of the 14 new positions requested, including one Attorney and four Clerk Stenographers, are for the Branch of Enforcement. This branch supervises and coordinates the investigation and inspection activities of the Regional Offices, and is responsible for the registration of Broker-Dealer firms.

The additional attorney is needed in the Section of Enforcement to review reports of investigations submitted by regional offices, and generally to assist in handling the legal work of the Branch. Two

additional clerk-stenographers are needed. In 1956 we propose to maintain in the Section of Enforcement about one clerk-stenographer for each two attorneys.

The Section of Broker-Dealer and Investment Adviser Registration processes applications for registration and supplemental reports, reviews broker-dealer inspection reports and performs various related activities which are explained on Pages 38, 39 and 40 of the justifications. The Section handles a large volume of work which should be completed promptly. The services of two additional clerk-stenographers are needed in this Section.

STATISTICS

The remaining nine additional positions for the Trading and Exchanges Division are for statistical work. The statistics compiled by the Commission are divided into two classes: those compiled for use in administering the Commission's statutes and those compiled under the direction of the Office of Statistical Standards of the Bureau of the Budget as a part of the Government's overall statistical program.

We are requesting one additional position for our own use, that is, to prepare reports on the Cost of Flotation, as outlined on Page 49 of the justifications. These reports should be completed

in fiscal 1956 and the services of the Statistician will not be needed after 1956.

A request is made for eight additional positions to expand the series of reports we prepare as a part of the Government's statistical program.

In the summer of 1954 the Congressional Subcommittee on Economic Statistics submitted a progress report to the Joint Committee on the Economic Report. The report brought out that intelligent economic judgments can only be made on the basis of adequate factual information. It was recognized that not only do the various governmental bodies need such data but that private enterprise rightly looks to Government for such facts.

In line with the recommendation made by the Subcommittee on Economic Statistics, the Administration's Budget for fiscal 1956 contains a section on Federal Economic Statistical Programs covering all the statistical programs conducted by the Government. This section indicates that an additional \$4.8 million is being requested in the fiscal year 1956 for the improvement and extension of current government statistical programs. Of this total increase \$33,050 is being requested for the Securities and Exchange Commission

for the purpose of improving and expanding its statistical contributions along the lines indicated by the Subcommittee.

I also have been informed that in the hearings on economic statistics held by the Subcommittee on the Economic Statistics in July, 1954, Dr. Arthur F. Burns, Chairman, Council of Economic Advisers, indicated that there was need for preparing data on manufacturing profits more promptly and filling the gaps in other industries such as trade and mining corporations. The statistical studies covering this subject are conducted jointly by the Securities and Exchange Commission and the Federal Trade Commission. In addition, he remarked that there was need for improved seasonally adjusted series. The Commission, for instance, has been asked to provide a seasonal adjustment for its savings study. Others testifying before the Subcommittee brought out the need for current accurate information on corporate pension funds and for a study of the factors making for changes in business plans.

DECISIONS OF THE COMMISSION

There is \$80,000 included in the budget estimate for the printing of eight volumes of the Commission's decisions. The last printed volume covers the decisions rendered by the Commission to December 31, 1948. On next July 1, there will be a backlog of

eight volumes to print, covering decisions rendered between January 1, 1949 to June 30, 1955. For those having business with the Commission and for their counsel, the decisions of the Commission must be consulted in the same manner as the reported decisions of the courts. We believe that the printing of these decisions is in the public interest.

INCREASE IN TRAVEL

We are requesting an increase of \$13,360 for travel in fiscal 1956, principally for the travel of the additional Broker-Dealer Inspectors and Securities Investigators requested for 1956.

ACTIVITIES FOR WHICH NO INCREASE IS REQUESTED

I have not mentioned the work of the Division or Offices for which no increases or decreases are involved for 1956. Their activities appear to be adequately covered in the justifications.

STATUTES ADMINISTERED BY THE COMMISSION

The Securities and Exchange Commission administers seven statutes:

The Securities Act of 1933;

The Securities Exchange Act of 1934;

The Public Utility Holding Company Act of 1935;

The Trust Indenture Act of 1939;

The Investment Company Act of 1940;

The Investment Advisers Act of 1940; and

it performs certain duties under Chapter X of the
Bankruptcy Act.

The general purposes of these statutes are explained briefly on Pages 1, 2 and 3 of our justifications.

RECOMMENDED APPROPRIATION

The recommended appropriation for the Securities and Exchange Commission for the 1956 fiscal year is \$4,997,000. This is \$247,000 more than the appropriation for the current fiscal year. It is \$3,000 less than our appropriation for fiscal 1954.

The Commission's employment and number of positions carried for fiscal 1954, 1955 and 1956 are as follows:

<u>Fiscal Year</u>	<u>Employment Beginning of Fiscal Year</u>	<u>Average Employment</u>	<u>Number of Positions</u>
1954	772	746	756
1955	699	695	711
1956	690	730	749

Employment as of January 31, 1955 was 692.

The additional funds requested will provide for:

The establishment of 40 new positions, of which 26 are in the Regional Offices and 14 are in the Central Office; and the elimination of two positions in the Executive Offices. The net cost is \$154,955;

It will allow an increase of \$13,360 for travel;

It will provide \$80,000 for the printing of eight volumes of the Commission's Decisions, to make them available to the bar, the courts and others who need them.

ORGANIZATION

An outline of the Commission's organization is given in the table appearing as Page 4 of the justifications. The table shows the manpower used and the money expended in fiscal 1954 for each Division of the Central Office and for each Regional Office; the 1955 personnel and allotments; the changes proposed for 1956; and the totals for 1956.

We have submitted written justifications to the Committee, in which we have shown in detail the additional positions and other items

We have transferred 10 employees from the Central Office to the Regional Offices since July 1st. Also some functions were transferred to the Regions.

Forms X-17A-5, Financial Reports of Broker-Dealer firms, filed by registrants in the Boston and New York regions were formerly examined in Washington. This function was transferred to the Boston and New York Regional Offices on April 1, 1954.

The surveillance of trading in securities on stock exchanges and the over-the-counter markets, to detect indications of manipulation or other prohibited practices, was transferred from the Central Office to the New York Regional Office at the beginning of the current fiscal year. The Central Office retains supervisory control of the work.

We recently transferred jurisdiction over the state of Pennsylvania from the New York Regional office to the Washington, D. C. Regional Office. We believe that the Washington Office will be able to cover Pennsylvania more effectively and at less cost.

The staff of the New York Office assigned to administer certain functions under Chapter X of the Bankruptcy Act was reduced from 12 to 7 professional employees. One qualified employee was transferred to enforcement work in the same region.

Reports to close investigations were condensed to save the time of the field staff which prepares them and the staff of the Central Office which reviews them.

Responsibility for the administrative processing of Regulation "A" filings, the small public issues of less than \$300,000, which are exempt from the registration requirements of the Securities Act, was transferred from the Central Office to all Regional Offices, except Denver.

A substantial increase in the number of uranium stock issues offered for sale to the public under our Regulation "A" occurred in the Denver Region in June, 1954, and has continued at a high level since then. We permanently transferred three employees from the Central Office to Denver to handle this increased volume of work. We detailed, on a temporary basis, a few employees from other regions. The increase in uranium issues is also occurring in other regions.

We believe that the addition of the 26 new positions for the Regional Offices is essential. You will note from the summary on page 72 of the justifications that the new positions are: five Securities Investigators, of which three are to be assigned to Chicago and two to Denver; two Regulation "A" Examiners, one for New York and one for Denver; nine Broker-Dealer Inspectors, to be distributed among all regions except Washington and San Francisco; and ten Clerks.

In the Chicago region they are forced to use Broker-Dealer Inspectors to make securities investigations because of the shortage of Accountant Investigators. At present there are 4 Accountant Investigators in the entire Chicago region. We need three more to perform adequately the investigations which should be conducted in that region.

We have opened a branch office in Salt Lake City, Utah, because of the activity there in uranium stocks, and have assigned an Investigator and a Clerk to that office. One of the two additional Investigators sought for the Denver Region would be assigned to the Salt Lake City branch office.

Over two-thirds of the Regulation "A" filings in Denver cover mining ventures. Occasionally the processing of a filing indicates the necessity of a physical inspection of property. The offering circulars should be analyzed by a qualified Mining Engineer. The second Investigator for Denver should be a Mining Engineer. We need his services on a full time basis.

There are 4,206 Broker-Dealer firms now registered with the Commission. In fiscal 1954 a total of 788 inspections were made; in the current fiscal year we expect to make approximately 800 inspections; and in fiscal 1956, with the nine additional Inspectors

requested, we should make 1,200 inspections, thus making possible an average of one inspection every three years. Even this rate would not be fully satisfactory. There is a public impression that, under the Commission's authority to inspect books and records, brokers and dealers are examined with much the same frequency as banks. This is not the case and the Congress and the public should realize it. There could be serious loss to the public in case falling markets or other factors produced a wave of insolvencies. A financial report is now required on original registration of brokers or dealers. A manual for guidance in inspection of broker-dealers has been formulated. Information is received as to which brokers and dealers are inspected by other agencies such as state authorities, stock exchanges, and the National Association of Securities Dealers. All of this is an attempt to mitigate the adverse effect of the Commission's budgetary inability to conduct an adequate program of examining brokers and dealers.

Ninety-one new Broker-Dealer firms were registered in calendar 1954 in the Denver region. Many of them have had little or no experience in this business. We have conducted 33 so-called "quickie" inspections to aid these newly registered Broker-Dealers in complying with our statutes. We expect this volume of new

registrations to continue. The broker-dealer inspection program is a basic source of information for detecting violations, and it has a prophylactic value.

We also have found that there is an acute shortage of clerical help in most of the regions. We have requested funds to employ ten more clerical workers in 1956. Our higher paid employees would produce more work if they had more low-cost clerical help.

INCREASES IN THE CENTRAL OFFICE

In the Division of Corporate Regulation we propose to drop in fiscal 1956 one Administrative Assistant; and 3 attorney positions because of the completion of the bulk of Section 11 work (integration proceedings under the Public Utility Holding Company Act).

However, two positions, one Attorney and one Analyst, are needed to make an examination of public utility service companies under Section 13 of the Public Utility Holding Company Act. A recent examination of reports filed by service companies indicates the desirability of increased attention to this responsibility. We have not had, nor do we now have, the men needed for that work. This has been disclosed to the Congress in budget justifications for several years.