

May 20, 1955

Honorable Alexander Wiley
United States Senate
Washington, D. C.

Dear Senator Wiley:

This is in response to your letter of May 12 addressed to Commissioner J. Sinclair Armstrong as Chairman of the Commission. Mr. Armstrong referred the letter to me since he has not yet been designated as Chairman and my resignation is not yet effective.

This letter supplements two long personal conversations with Mr. Julius N. Cahn of your Committee's Counsel, one on May 18 with William H. Timbers, our Commission's General Counsel, and the other on May 19 with me. It also supplements previous conversations which Mr. Cahn had with Commissioner Clarence H. Adams. In those conversations there was outlined to Mr. Cahn in detail the current program of the Commission with respect to the problems raised by illegal and fraudulent offerings of securities from Canada into the United States. In that connection, we discussed among other things:

- (1) Cooperative programs with Canadian provinces designed to:
 - (a) Facilitate and encourage compliance by Canadian issuers with offering circular and prospectus requirements of the United States securities laws;
 - (b) Prosecution in Canada of frauds violative of Canadian laws (which incidentally were somewhat strengthened by an amendment to Section 343 of the Canadian Criminal Code which became effective on April 1, 1955);
- (2) Efforts through the Department of State and the Governor in Council to obtain through reference to the Supreme Court of Canada an interpretation of the Supplementary Extradition Convention of 1952 which would make that treaty a more effective instrumentality

We also reviewed problems created by:

- (1) The fact that those making offerings into the United States from Canada are beyond the jurisdiction of the United States;
- (2) The current interpretation of the Supplementary Extradition Convention of 1952 which weakens its effectiveness;
- (3) The federal-provincial system of Canada and the federal-state system of the United States.

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We reviewed in a general way the several methods by which illegal Canadian securities offerings have been, and are being combated, including:

- (1) Investigations;
- (2) Postal fraud orders;
- (3) State injunctions and cease and desist orders;
- (4) Federal injunctions;
- (5) Federal indictments, both open and secret;
- (6) Restricted lists (lists of securities presumptively illegally offered in which American brokers and dealers should not trade);
- (7) Publicity campaigns warning investors against high pressure Canadian offerings;
- (8) Warning letters to suspected violators;
- (9) Informal liaison with Canadian authorities and state securities commissioners;
- (10) Prosecutions in Canada under Canadian law;
- (11) Administrative sanctions in Canada under Canadian law;
- (12) Regulation D (a simplified procedure for small Canadian offerings made in the United States);
- (13) Extradition.

Our conferences with Mr. Cahn generated a mutual understanding and appreciation of the fact that you are deeply concerned with the problem and of the fact that this Commission within the limits of its powers, ability, and available funds is determined to make progress toward a solution of a most complex problem which vitally affects both Canada and the United States.

Sincerely yours,

Ralph H. Demmler
Chairman

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