

UNITED STATES
SECURITIES AND EXCHANGE COMMISSIONREGIONAL OFFICE
ROOM 630, BANKERS BUILDING
105 W. ADAMS STREET

CHICAGO 3, ILLINOIS

August 15, 1957

AIR MAIL

Mr. A. K. Scheidenhelm
Executive Director
Securities and Exchange Commission
Washington 25, D. C.

Re: 1957 Regional Administrators' Conference

Dear Mr. Scheidenhelm:

I will attempt to set forth in this letter a brief outline of a few points which come to my mind and are deemed worthy for discussion at the Regional Administrators' meeting.

Solvency Inspections of Broker-Dealer Firms

In connection with making broker-dealer inspections, one of the first matters to be considered is whether a solvency inspection is called for. On page 15, Item 12 (a)(2), of the Broker-Dealer Inspection Manual, it is stated that "A financial examination shall be made if the latest report filed with the Commission speaks as of a date which is more than 6 months prior to the date of the inspection, even though such report was certified." (Where uncertified reports are filed, a financial inspection is always required).

In the light of the language in the Broker-Dealer Inspection Manual, I have always felt that I, as Regional Administrator, had very little discretion in deviating from this rule. As a result, during the past few years we have made a number of solvency inspections of firms where I didn't think it was necessary but made the solvency simply because a financial statement had not been filed within the immediate 6 months prior to the inspection. As you perhaps know, ordinarily a solvency inspection will take 2 to 3 times as long as a routine inspection.

This subject has been lightly touched upon at 2 previous Regional Administrators' meetings but no definite conclusion was reached at either of them. In my opinion it would be very helpful if we could have a full discussion with the Division of Trading and Exchanges on this subject. I think that if the question as to when a solvency inspection should be made were left to the discretion of the

regional administrator, we could greatly increase the number of inspections made in our respective regions. I, for one, would be very much interested in the reaction of the Division of Trading and Exchanges to this suggestion, and I feel that other regional administrators would also be interested in this subject.

Supervision of Employees in Larger
Broker-Dealer Firms

A second subject which I would like to discuss at the Regional Administrators' meeting is the supervision given to employees by some of the larger broker-dealer firms. During the past year we have had occasion to make examinations and inspections of 4 or 5 large firms where we found flagrant violations of the Commission's rules by employees of these firms and in almost every instance our investigation disclosed that these employees had been subjected to little or no supervision.

I will not attempt to spell out in this letter the violations in detail but will be prepared, if you deem it advisable to do so, at the time of our meeting. I am bringing this matter up for discussion for the reason that I think some directive or warning should be issued to these houses that they have a responsibility to supervise their employees. Needless to say, if the conduct which I complain of is widespread throughout a firm no problem is involved for the reason that we would immediately recommend revocation proceedings. However, in the instances I have in mind we have 1 salesman out of 20 or 30 who is conducting unauthorized trading or churning his customer's account.

I would like to discuss both of the above problems generally at the Regional Administrators' Conference.

Very truly yours,

Thomas B. Hart

Thomas B. Hart
Regional Administrator

cc: Mr. William E. Becker