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MFCohen:jca  
9/2/58

ENFORCEMENT PROGRAM

The Commission's Enforcement Program may be divided in several categories: (1) security compliance with statutory requirements for the filing of registration statements, reports, proxy statements, trust indentures and other documents required to be filed by companies subject to the jurisdiction under the several securities acts; (2) administrative proceedings and other administrative action of less formal nature designed to enforce the foregoing requirements; (3) action taken by the Commission through the administrative proceedings and through actions in the court which are designed to rectify statutory violations and to punish violators and (4) the continuing program of the Commission which is designed to keep the Commission's rule and regulation requirements in step with changing patterns of securities distributions and other changes in the capital and securities markets. Another facet of the Commission's Enforcement Program<sup>which</sup> is in fact an aspect of the other four, is the assistance rendered by the Commission and its Washington Office and its nine regional and six sub-regional offices to persons inquiring with respect to the application of the statutes to proposed transactions and as to the meaning, scope, application and inapplication of the facts and the rules and regulations thereunder. These will be discussed below:

- (1) In point of volume, perhaps the greatest responsibility of the Commission is to secure compliance with the provisions of the statutes and rules adopted to implement those provisions so as to

secure the filing with the Commission and, where appropriate, with national securities exchanges of adequate of accurate information concerning the large number of companies subject to the Commission's jurisdiction in order that investors may have sufficient information to exercise informed judgments whether to purchase or to sell securities or to vote for or against various types of corporate action requiring and their consideration or approval. In addition, this information serves generally to provide investors with an accounting of the stewardship of their companies by the elected managements and their appointed officers officials. Finally, this vast body of information is available to the branches of the Government and is of assistance in reaching important determinations of economic trends and changes in the capital of the securities markets as well as providing information upon the basis of which important policy considerations may be reached and enforced.

The Commission's staff, for reasons of efficiency, is divided into several divisions and offices and a portion of the work is conducted in the regional offices. For the purpose of this discussion, however, it may suffice to state that the staff concerned with this area of the Commission's Enforcement Program consists of security analysts, attorneys, accountants, engineers and other persons who are experts in all fields of corporate financial securities distributions, stock exchange and over-the-counter securities markets practices and related legal and engineering problems.

It is the primary responsibility of this staff to review material filed with the Commission to determine <sup>whether</sup> such material complies with the statutory standards as implemented by Commission rules, regulations and forms. This work not only requires expert review and understanding of the material filed, but in order to assess its general accuracy, it is necessary for the staff to review on a constant basis changes in the pattern of securities distribution a company organization and combination as well as changes in the business and industrial sectors of the economy.

The Commission also has under the statutes a continuing responsibility to review its rule, regulation and procedural requirements on a continuing basis to determine whether the legislative purposes are being fully carried out in the context of the changing economic scene. This ~~work~~ activity also was for its purpose the elimination of requirements no longer necessary or meaningful and the integration of requirements among the several statutes wherever possible so ~~f~~ as to avoid unnecessary burdens.

The second aspect of the Commission's enforcement program mentioned related to the implementation of the Commission's responsibility to secure compliance with statutory and rule requirements as to information and documents required to be filed with the Commission, with national securities exchanges or required to be furnished to existing or prospective investors. The Commission has a variety of administrative authorities and techniques which are designed to achieve this purpose. Thus, under the Securities Act the Commission may institute formal examination, refusal order and stop order procedures, and in aid of these procedures may it may institute or otherwise private or public investigations. Where a formal proceeding is conducted the Commission accords (?) whether or not the proceeding is subject to the requirements of the Administrative Procedures Act of 1946 the full panoply of rights and privileges considered appropriate within the concept of due process. These proceedings are usually adversary in nature and are conducted in the same manner and with the same dignity as adversary proceedings in the courts are conducted. They are usually held before a hearing officer whose recommended decision to the Commission is advisory so as to permit the parties full recourse to the Commission itself in connection with any such proceeding by way of requested findings, exceptions, briefs and oral argument. Elsewhere in this report we discussed the number of proceedings of this general character which have been initiated and conducted under the several acts during the past fiscal year.

Apart from these formal proceedings, and perhaps of greater importance to industry and to the investor are the informal procedures which the Commission devised and has perfected through the years to

secure prompt compliance with statutory requirements in connection with the vast majority of cases. It may be fair to say that this procedure was first initiated by the Commission shortly after the enactment of the Securities Act, the first statute it was authorized to administer in order to assure expeditious handling of matters presented to the Commission with the least possible interruption to the free play of the securities markets. This procedure which has been adapted and is now used under all of the statutes administered by the Commission is essentially an informal proceeding whereby except for cases of palpable fraud or flagrant disregard of the requirements of the statute the Commission's explicit rules, regulations and forms thereunder the documents filed with the Commission require correction or modification in order to meet the statutory standards. This is achieved by a review of the documents by the teams of experts on the Commission's staff from whose work there is distilled what is sometimes referred to as the "letter of comment" and which is nothing more than a letter addressed to the registrant or other person who has filed a document with the Commission advising of the areas in which the document appears to be deficient or otherwise requires correction. This procedure permits prompt consideration of the problem by all persons concerned in an informal way and for correction or modification to meet the statutory requirements and permit plans of financing, listing of securities, the conduct of meetings, sales of assets and many other transactions to proceed generally in accordance with the time schedules fixed by the parties in interest and under circumstances which permit an informed and timely consideration of these matters by existing and prospective investors.

The third aspect of the Commission's enforcement program to which reference has been made includes administrative actions as well as actions taken before the courts which are designed to correct violations of a more serious nature and to punish violators or to impose other sanctions authorized by law. These include proceedings for the revocation of the registration of brokers and dealers and investment advisers because of material violations of law, ~~and~~ for expulsion from national organizations in the industry such as the National Association of Securities Dealers and for the institution of injunctive proceedings where appropriate as well as for the recommendation to the Department of Justice for the institution of criminal proceedings where such action seems warranted. Elsewhere in this report references are made to the number of proceedings of these types which have been initiated by the Commission during the past fiscal year as well as the number of criminal proceedings which have been instituted.

Another aspect of the Commission's program to which reference has already been made is the continuing review conducted by the Commission's staff of the rules and regulations adopted under the statutes to assure that these rules, regulations and related procedures are being carried out in conformity with the basic statutory intent, particularly in the light of changing patterns of securities issuance and distribution. A related aspect of the Commission's enforcement program also involves a consideration of the basic statutes and the recommendation of appropriate amendments where new developments or new problems seem to suggest the consideration of legislative revision.



Finally, mention may also be made of the vast number of bills which are introduced in the Congress each year the adoption of which would have an effect upon the work of the Commission or as to which the existence of the Commission's authority and responsibility would be relevant. Elsewhere in this report specific reference has been made to the various rule making actions which have been initiated or adopted during the last fiscal year.

Finally, reference must be made to the program of interpretative assistance made available by the Commission in the Washington Central Office and in its various regional and branch offices. This assistance is made available to companies and their officials, to their attorneys, to accountants, to investors and to members of the public and to various other agencies of the government, both federal and state. It is of extreme importance in that the availability of this assistance makes possible the conclusion of many business and securities transactions in a manner which conforms or is exempt from the securities acts and thus avoids inadvertent violation which may be attended by serious financial risk and other difficulties. This assistance is provided by the appointment of staff personnel in the central office and in the regional and branch offices who are authorized to consider requests whether made in person, by telephone or by correspondence. It is difficult to estimate the aggregate number of inquiries which are received by the Commission's staff during a particular year. It is estimated, however, that the total number of inquiries may aggregate as many as 15,000 to 20,000.