It is my understanding that the President has transmitted to your Committee a Supplementary Extradition Convention which was signed on October 26, 1951, by the governments of the United States and Canada. The new Convention adds to the list of crimes for which extradition will be granted between the two countries. It is the outgrowth of lengthy negotiations had in an effort to find a practical and effective means of stopping certain illegal and fraudulent trafficking in securities across the international border.

As the subcommittee of the Senate charged with supervision of the Securities and Exchange Commission, we, in the past, have interested ourselves in the problem that provides the background for this Convention. It has been a most serious problem from the standpoint of public investors and has represented one of the most important and perplexing enforcement matters to confront the Commission in the last decade.

From the reports made to us by the Securities and Exchange Commission, it appears that for some years a fringe group of stock promoters, operating from Toronto, Canada, have sold vast quantities of stock to our citizens in violation of our laws. This small group – which is not representative of the Canadian securities industry generally, but which nonetheless has done widespread damage – has utilized to the fullest extent the broad reach of our telephone and postal systems to prey upon American investors. The materials exhibited to us show that their promotions have been attended by the rankest sort of fraudulent misrepresentations, apparently made without any conscientious or moral restraint. It would appear further that the victims of these schemes have been the relatively unsophisticated investors who obviously are most in need of the protection of the securities laws we have enacted.

The Commission also has advised us of the steps they have taken to meet this problem. They have conducted numerous investigations as the result of which indictments against the offenders have been returned in various parts of the country. The indictments have had small effect because of inability to apprehend the violators. In some cases where persons subject to such indictments have been apprehended within our borders, they have forfeited bail bonds in

amounts as high as $50,000 and returned to Canada. The extradition arrangements presently in force between Canada and the United States are such that our government cannot secure the rendition of such persons to answer to the indictments issued against them.

The Commission also has enlisted the aid of the Postmaster General in an effort to compensate for the short-comings of our present treaty arrangements. The Postmaster General, acting upon reports of investigation furnished to him by the Commission and by his own inspection service, has issued numerous postal fraud orders designed to close the mails to these fraudulent schemes. These orders have had some good effect, yet it has been virtually impossible to police them thoroughly with existing personnel. Moreover, the offenders have been most resourceful, through changes of address, etc., in minimizing their effectiveness. In addition to these enforcement steps, widespread publicity has been given to the problem in an effort to acquaint investors fully with the dangers involved in this area, and to urge them to investigate before they invest in such promotions.

It would appear that these various efforts have had a beneficial effect, particularly in recent months. They have been implemented by what appears to be a new understanding on the part of Canadian securities regulators as to the mutual nature of the problem that the operations of this fringe group of “stocketeers” presents. The offending group recently has received notable, although not necessarily permanent, set-backs, and at the present time many of them have gone under cover.

The Securities and Exchange Commission, however, has insisted at all times that the only sound base upon which enforcement efforts in this country can be premised is the amendment of our existing extradition treaty with Canada so that it will cover modern securities fraud techniques. In 1940, after an unsuccessful attempt had been made to obtain extradition for securities fraud under the present treaty, efforts were began to secure its revision. As you will recall, in 1942 our Senate ratified a somewhat broad treaty covering both violations of registration requirements and fraud. Unfortunately, the objections raised to this treaty in Canada were such that it never passed the committee stage in the Canadian Parliament. A similar effort

at revision failed in 1945. Since that time the problem has become more acute, and the Securities and Exchange Commission, through the State Department, has continued to press for negotiation of a new treaty and to participate in discussions with representatives of the government of the Dominion of Canada to that end. In balance, it was determined by all of the governmental authorities involved that, since the major objections raised in Canada to our last amendment attempts had related to the securities registration aspects of the proposal, on this occasion it would be in the public interest to narrow our extradition aims and to concentrate on the simplest common denominator -- fraud, and that alone. It is the expressed view of those concerned with the problem that once the fraudulent operations are fully stamped out, violations of our registration laws will not constitute a significant enforcement problem. The Supplementary Convention transmitted to your Committee for ratification purposes represents the culmination of these most recent negotiations.

Our subcommittee also is familiar with the terms of the Convention. It appears to be a relatively simple documents. The criminal laws of both countries, in contrast to our extradition arrangement, have kept pace with the refinements of modern securities fraud techniques. The Supplementary Convention does no more than reflect the coverage of those laws. We are advised that it is hoped and expected that by this simple amendment our Government will be provided with the practical machinery which will enable them to handle the problem, and has been represented to us that if such a treaty amendment should become effective and be implemented by continued cooperative on the part of Canadian securities regulators, the SEC should be in a position to provide a full measure of protection to American investors with the least possible interference to legitimate business in either the U. S. or Canada.

The Supplementary Convention cannot, of course, become effective unless and until it is ratified by the Senate. The Prime Minister of Canada already has presented the Convention to the Parliament by way of resolution. Although previous treaty revision proposals have not been approved in Canada, I am told that the present proposal has received wide acceptance by the Canadian securities industry and law enforcement officials in that country. Because of its

sponsorship, it is not expected that any such obstacles to approval as have been met in the past will be encountered on this occasion.

I think it evident from all of the foregoing that the problem is a serious one that merits the immediate attention of and action by our Senate. Not only is quick action required in view of the pressing need for providing effective means of protecting our investors; it also is important that the gains heretofore made be consolidated at the earliest possible moment.

In view of the continuing surveillance of the functioning and administration of our securities laws with which our subcommittee is charged, the subject matter of the treaty is obviously of great interest to us. Also from our previously gained knowledge of the background of the problem, we feel that expeditious consideration of and appropriate action upon the treaty would be highly desirable.