

September 21, 1959

MEMORANDUM

Re: Closed "SEC" Session at the Convention of the North American Securities Administrators held on September 9, 1959, at 2:30 P.M. at the Hotel Claridge, Atlantic City, New Jersey

Mr. John Hueni of Michigan was the Chairman of the meeting which was attended by many of the Blue Sky Administrators. The Commission representatives present included the Chairman, Commissioner Hastings, Messrs. Philip A. Loomis, Jr , Joseph C. Woodle, Lawrence M. Greens, Abraham A. Reizen, William D. Moran, John J. Devaney, Irving M. Pollack, Charles T. Kappler and Manuel F. Cohen.

The single matter which received the greatest attention and aroused by far the greatest interest among the Administrators was the problem of boiler room operators. Messrs. Loomis, Pollack and Moran addressed themselves to a number of specific questions in this general area. The following is a brief summary of the questions raised by various of the Securities Administrators:

1. Mr. Mosby of Missouri indicated that it would be of great assistance to a state administrator if the Commission could advise him as to the filing of petitions for injunction or similar actions with respect to matters or persons within his jurisdiction. There was a brief discussion of the difficulties that would flow from the adoption of the suggestion. The Chairman indicated, however, that at the coming Regional Administrators meeting the matter of closer liaison of staff of the Commission with the State administrators would receive close attention.

2. Mr. Hueni of Michigan inquired regarding new developments in respect to boiler room problems. Messrs. Loomis and Moran discussed the boiler room situation.

3. Mr. King of Texas inquired why the Commission did not seek injunctions against the sale of any security rather than against the sale of the specific security concerning which the litigation arose. Mr. Moran dealt with this problem. He mentioned certain limitations of

authority of the Commission in this area and the control over this problem exercised by the courts.

4. Mr. King of Texas indicated that he would like to be informed more fully as to matters developing in any investigation by the Commission, wherever conducted, if it related to matters or persons within his jurisdiction. He suggested that information with respect to such matters should be brought to his attention on the Commission's own motion and that he would do likewise with respect to matters coming to his attention. Mr. Loomis and Mr. Hastings discussed the problem and pointed out certain inherent dangers in such a procedure.

5. Mr. Hueni inquired as to new developments with respect to offerings from Canada. Mr. Loomis outlined the arrangements made with the province of Saskatchewan and indicated further that we were getting good cooperation from certain other provisions. He stated further that the fraud cases were apparently coming from provinces where the enforcement staff was not quite adequate to the job.

6. A question was raised as to the merits or usefulness of cease and desist orders issued by State authorities, particularly as to persons across state lines. Mr. Loomis indicated while there was no Federal law making a continued violation (despite the issuance of a cease and desist order) a Federal offense, the issuance of these orders was used in evidence in litigation and frequently formed the basis for placing the name of a particular company on the Canadian Restricted List. In this connection Mr. Haderick of the New York Attorney General's Office said that his office opens an investigation file with respect to each and every cease and desist order received by them if it relates to a person or company within its jurisdiction.

7. Mr. Samp inquired whether the Post Office Department was still issuing fraud orders. Mr. Loomis indicated that those had been used in connection with fraudulent offerings from Canada in the early 50's but that they were much more infrequent now due to recent court decisions which have tended to restrict the authority of the Post Office Department. Mr. Samp inquired whether the Post Office Department wouldn't issue similar orders on the basis of State cease and desist orders. Mr. Loomis and Mr. Pollack replied that the Post Office Department

must have a prima facie showing of fraud before it would consider issuing a fraud order. Mr. Pollack adverted to the program to be initiated by the Commission this fall, in conjunction with the National Advisory Council, of radio and TV announcements to alert investors to the pitfalls of indiscriminate securities practices. Mr. Pollack solicited the cooperation and interest of the Administrators in this program in order that it may be as effective as possible. He also urged them to continue to issue cease and desist orders wherever appropriate.

8. Mr. Sobeski of California inquired as to a program of fingerprinting securities salesmen. Mr. Hederick of New York referred to the new New York registration law which will require the registration of brokers, dealers and salesmen. A photograph of each person registered must accompany the application.

9. Mr. Hederick also referred to the fact that evidence obtained as a result of telephone tapping can be used in the New York courts but no in the Federal courts. He stated however, that such tapping frequently provided a basis for investigation. Mr. Pollack suggested that the State Commissioners inaugurate a policy of taking affidavits from defrauded investors and making such affidavits available to the Securities and Exchange Commission or other State authorities who may be in a position to initiate fraud action.

10. Mr. Hueni raised the question as to continued use of graphic prospectuses. Mr. Cohen indicated that there were not many situations in which such prospectuses had been employed; that, although pictures presented additional disclosure problems, the prospectuses which the Commission had not objected to appeared to comply with the disclosure requirements of the Securities Act.

11. A question was raised as to certain disclosure in the prospectus whereby Mr. Hugh Long disposed of a portion of his interest in a company for an investment trust. Mr. Raizen explained this situation.

12. A question was raised as to the situation with respect to Managed Funds. Mr. Loomis discussed the stop order proceedings and the proposed broker-dealer revocation proceedings. He also discussed the New York Stock Exchange section against Model, Roland &

Stone and against Mr. Jacquith. Mr. Greene discussed the policy of the company of generating capital gains in order to make regular distributions.

13. Mr. Samp raised the point that Arthur Weisenberger no longer furnished figures on a company basis as to turnover of the portfolio. It was pointed out that the NASD publishes aggregate figures.

14. Mr. Mosby of Missouri inquired about the steps taken to protect the shareholders of Managed Funds. Mr. Loomis stated that the Commission was, of course, concerned with their interest and protection and that the Commission's actions were designed to afford them as much protection as possible.

15. Mr. Hueni inquired as to the status of the legislative program. The Chairman described the program. He indicated that reports were in the process of preparation by the respective committees and expressed the hope that the bills would reach the floor of each house at the next session. He stated also that the NASD has largely withdrawn its objections and now urged passage of the bills.

16. Mr. Samp raised the question as to the objective voiced by the NAIC as to the legislative proposals to require better statements as to investment policy by registered companies. He urged that clear statements in this area were truly necessary.

17. In response to Mr. Hueni's question Mr. Greene discussed the Wharton School questionnaire relating to the size of registered investment companies and the program of the study.