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May 16, 1975

The Honorable John R. Evans
Commissioner
Securities and Exchange Commission
500 North Capitol Street
Washington, D. C. 20549

Dear John:

I quite agree with your talk "Truth or Consequences". Everyone would agree that ethical and moral standards of corporate conduct should be a normal part of corporate democracy. How one imposes those standards is somewhat more of a problem. I suppose that it is the function of Congress and the federal courts to read such standards into legislation.

Since the SEC's enforcement jurisdiction is limited to anti-fraud proceedings based on non-disclosure or specific violations of the federal securities laws or rules, I do not suppose the SEC can be too effective. In other words, corporations are creatures of state law, not federal law. The fiduciary obligations of officers and directors are established by state law, not federal law, except as to specific provisions in the federal securities laws. The 1933 Act contains none, relying solely on full disclosure. The 1934 Act is similar. The 1940 Act and the 1940 Advisers Act both contain limited fiduciary standards, but like the 1933 and 1934 Acts, rely almost entirely on the anti-fraud provisions as a jurisdictional base for enforcement proceedings.

The NASD by-laws provide for more in the way of ethical and moral standards than any specific provision of

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the federal securities laws. You may want to think about the possibility of a change in the statute to include the same standards that the NASD has enforced for many years.

On another subject, it was a pleasure to talk with you today and you are doing a great job for America.

Sincerely yours,



Carl L. Shipley

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