
STOCK EXCHANGE PRACTICES

JUNE 6 (calendar day, JUNE 16), 1934—Ordered to be printed

Mr. FLETCHER, from the Committee on Banking and Currency,
submitted the following

REPORT

[Pursuant to S.Res. 84, 72d Cong.: S.Res. 56 and S.Res. 97, 73d Cong.]

The Committee on Banking and Currency, authorized by Senate Resolutions 84, 239, and 371 of the Seventy-second Congress, and continued in effect by Senate Resolutions 56 and 97 of the Seventy-third Congress, to investigate security dealings, banking practices and effects of same, submits the accompanying introductory statement and report:

INTRODUCTORY STATEMENT

On March 2, 1932, the Senate Committee on Banking and Currency, or any duly authorized subcommittee thereof, was authorized and directed by Senate Resolution No. 84 of the Seventy-second Congress to make a thorough and complete investigation of the practices with respect to the buying and selling and the borrowing and lending of listed securities upon the various stock exchanges, the values of such securities, and the effect of such practices upon interstate and foreign commerce, upon the operation of the national banking system and the Federal Reserve System, and upon the market for securities of the United States Government, and the desirability of the exercise of the taxing power of the United States with respect to any such securities.

Pursuant to the resolution, an exhaustive investigation into stock-exchange practices was conducted by a duly authorized subcommittee of the Committee on Banking and Currency. Public hearings were held on April 11 and 12, 1932, with Claude Branch, Esq., acting as counsel to the subcommittee; and hearings were continued on April

18, 21, 23, 26, May 19, 20, 21, and June 3, 4, 10, 11, 14, 16, 17, 18, and 23, 1932, with William A. Gray, Esq., acting as counsel. The scope of these hearings was limited to stock-exchange practices.

On January 11 and 12, 1933, the subcommittee heard testimony regarding the flotation and distribution of securities issued by Krueger & Toll Co., with John Marrinan, Esq., conducting the examination.

On January 24, 1933, Ferdinand Pecora, Esq., was retained as counsel to the subcommittee and thenceforth the inquiry proceeded under his guidance.

On February 15, 16, and 17, 1933, evidence was presented relating to the Insull failure.

Between February 21 and March 2, 1933, hearings were held with regard to the National City Bank and its securities affiliate the National City Co.; and on March 1, 1933, testimony was also heard concerning practices on the New York Stock Exchange.

The scope of the inquiry was materially expanded when Senate Resolution No. 56 of the Seventy-third Congress was agreed to on April 4, 1933. The resolution provided:

Resolved, That the Committee on Banking and Currency, or any duly authorized subcommittee thereof, in addition to the authority granted under Senate Resolution 84, Seventy-second Congress, agreed to March 4, 1932, and continued in force by Senate Resolution 239, Seventy-second Congress, agreed to June 21, 1932, and further continued by Senate Resolution 371, Seventy-second Congress, agreed to February 28, 1933, shall have authority and hereby is directed—

(1) To make a thorough and complete investigation of the operation by any person, firm, copartnership, company, association, corporation, or other entity, of the business of banking, financing, and extending credit; and of the business of issuing, offering, or selling securities;

(2) To make a thorough and complete investigation of the business conduct and practices of security exchanges and of the members thereof;

(3) To make a thorough and complete investigation of the practices with respect to the buying and selling and the borrowing and lending of securities which are traded in upon the various security exchanges, or on the over-the-counter market, or on any other market; and of the values of such securities; and

(4) To make a thorough and complete investigation of the effect of all such business operations and practices upon interstate and foreign commerce, upon the industrial and commercial credit structure of the United States, upon the operation of the national banking system and the Federal Reserve System, and upon the market for securities of the United States Government, and the desirability of the exercise of the taxing power of the United States with respect to any such business and any such securities, and the desirability of limiting or prohibiting the use of the mails, the telegraph, the telephone, the radio, and any other facilities of interstate commerce or communication with respect to any such operations and practices deemed fraudulent or contrary to the public interest.

The authority of the investigating committee was further supplemented by Senate Resolution No. 97, of the Seventy-third Congress, agreed to on June 8, 1933, which provided as follows:

Resolved, That the Committee on Banking and Currency, or any duly authorized subcommittee thereof, in addition to and supplementing the authority granted under Senate Resolution 84, Seventy-second Congress, agreed to March 4, 1932, and continued and supplemented by Senate Resolution 239, Seventy-second Congress, agreed to June 21, 1932, Senate Resolution 371, Seventy-second Congress, agreed to February 28, 1933, and Senate Resolution 56, Seventy-third Congress, agreed to April 4, 1933, shall have authority to investigate any transactions or activities relating to any sale, exchange, purchase, acquisition, borrowing, lending, financing, issuing, distributing, or other disposition of, or dealing in, securities or credit by any person, firm, partnership, com-

pany, association, corporation, or other entity, and/or any other acts or operations of any one or more of them or of agents, affiliates, or subsidiaries of any one or more of them or of any entity (corporate or otherwise) directly or indirectly controlled or influenced by any one or more of them, which may affect or bear upon, either directly or indirectly, any of the foregoing transactions or activities. Such investigation shall be made with a view to recommending necessary legislation, under the taxing power or other Federal powers.¹

Between May 23 and June 9, 1933, public hearings were conducted with regard to the business operations and practices of J. P. Morgan & Co.

Between June 27 and July 6, 1933, public hearings were conducted with regard to the business operations and practices of Kuhn, Loeb & Co.

Between October 3 and October 13, 1933, public hearings were conducted with regard to the business operations and practices of Dillon, Read & Co.

Between October 17 and December 7, 1933, the subcommittee heard evidence relating to the Chase National Bank and its securities affiliate, the Chase Securities Corporation.

Between December 19, 1933, and February 9, 1934, a public inquiry was conducted into the closed banks in Detroit and evidence was received relating to the Guardian Detroit Union Group, Inc., and the Detroit Bankers Co.

Between February 14 and February 26, 1934, the subcommittee heard evidence as to manipulative activities in the so-called "repeal stocks" on the New York Stock Exchange.

Between February 26 and April 5, 1934, the full Committee on Banking and Currency conducted hearings on the Securities Exchange Act of 1934.

On April 18, 1934, the committee received for the record, a report prepared by its staff on the trading activity in the stocks of certain aviation corporations between December 1, 1933, and February 9, 1934.

On May 1, 1934, the subcommittee received in evidence the returns filed by stock exchanges, stock-exchange members and member firms, banks, and corporations in response to questionnaires submitted to them respectively by the subcommittee.

On May 3 and 4, 1934, the hearings were devoted to the introduction into evidence of the reports prepared by the investigating staff of the subcommittee on the Guardian Trust Co., Cleveland, and the Union Trust Co., Cleveland.

In the course of the investigation thus far conducted by the subcommittee a record of more than 12,000 printed pages has been compiled and more than 1,000 exhibits received in evidence. The subcommittee has endeavored to investigate thoroughly and impartially some of the complex and manifold ramifications of the business of issuing, offering, and selling securities and the business of banking and extending credit. It has endeavored to expose banking operations and practices deemed detrimental to the public welfare; to

¹ It should be noted that the above Resolution No. 97 had for its primary purpose the bestowal of increased power upon the Committee or any duly authorized subcommittee thereof to investigate any particular transaction or transactions as well as "practices" as had been incorporated in previous resolutions, in order that the Committee might not have its hands tied while going into income tax transactions of firms or individuals. See pt. 2, Lamont, Thomas S., pp. 658, 712-713.

reveal unsavory and unethical methods employed in the flotation and sale of securities; and to disclose devices whereby income-tax liability is avoided or evaded. Its purpose throughout has been to lay the foundation for remedial legislation in the fields explored and in some measure that purpose has already been achieved. During the progress of this investigation, Congress enacted the Banking Act of 1933, the Securities Act of 1933, the Securities Exchange Act of 1934, and several amendments to the revenue act calculated to eliminate methods of tax avoidance described before the subcommittee.

The cost of the investigation has been approximately \$250,000. The expenditures, however, have been justified many fold by the incalculable benefits flowing to the American people from the hearings in the form of enlightenment as to practices which have cost them so dearly in the past and in the form of remedial measures designed to prevent such practices for all time in the future. The Federal Government has been or will be reimbursed many times over by the receipt of additional income taxes and penalties imposed on the basis of testimony developed at the hearings. To date assessments for deficiencies and penalties have been levied by the Bureau of Internal Revenue in a sum exceeding \$2,000,000 as a direct result of the revelations before the subcommittee. No estimates are available concerning the extent to which the Treasury has been or will be further enriched as an indirect result of those revelations, but it is certain that a great many returns have been voluntarily amended and additional payments made since the public hearings were held.