

Memorandum: Mr. G. W. Goldschmidt

From: Paul P. Gourrich

Date: December 17, 1934

Here is a short summary of the ideas I had in mind this morning in connection with the 1933 registrations:

First, to show that the selective processes that used to weed out poor issues in Wall Street have been, to a large extent, destroyed. A man used to need to have an introduction to a banking house, and that introduction would take several steps until it reached somebody at the top, and in that process the matter would be sieved out before any real banking contact was made. A man would have to be respectable and well-known as to his competence and character, and the issue had to be sold in Wall Street, as it was very difficult to obtain capital in any other way. Many who were unable to get Wall Street contacts would finance their business either privately or with the capital of friends, or not finance it at all. In the advertising matter that appeared in the papers there was a simple statement of the capitalization and the nature of the company's business. There was some disclosure, while today there is a reference to the registered prospectus, with no information, the investor rarely reading the prospectus. And so, to a large extent, such issues as never could have been sold except through swindling methods or high pressure salesmanship, possibly can be offered today in a respectable manner.

In constructing a theoretical prospectus it may be shown the pitfalls in the 1933 Act. The issuer might have been a swindler who was locked up and every one of the issues with which he was associated may have turned out worthless. He might have put up very little, if any, actual capital, and so forth and so on. There are the following objectives in making this:

1. The need for amendments to the 1933 Act through Congressional action to be recommended by the S.E.C.
2. The need of immediately working out certain rules and regulations under Section 15 of the 1934 Act to remedy with such regulations the loop-holes and weaknesses of the 1933 Act.
3. The need of broad administrative discretion, which could only be derived from knowing the industries; for example, that there were too many breweries built, that some of the people know nothing about the brewery business, and the breweries were to be in locations which are overbuilt, etc. All this would require intelligent analytical work by industries and regional statistics.
4. In the studies we are now making as to following up what happened to the securities registered in October or November 1933, and groups of stocks (brewery, etc.) to show the

need of the public for greater safeguards of their investments in new issues, which may become particularly obvious in a little while from now, when the lamentable results of the companies registered become more generally known, and especially if, with further credit expansion, there develops a great demand for new issues because of the scarcity of old and seasoned issues.

CC Mr. N. Sameth