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PHILADELPHIA

October 1, 1942

Hon. Tom Connally
United States Senate
Washington, D. C.

My dear Senator:

This is in answer to your memorandum of September 23, 1942, enclosing a letter dated September 19, 1942, from R. K. Dunbar & Co., Ltd. of Austin, Texas.

Mr. Dunbar suggests that the subject matter of proposed Rule X-15C1-10 be left for correction to the officials of the National Association of Securities Dealers, Inc. for a period of one year from October 15, 1942. He also suggests that the question then be reexamined after such trial period and that if the Commission finds that the abuse sought to be corrected by the proposed rule has not been satisfactorily eliminated by that time, it then adopt a rule of the type which has been suggested.

It occurs to me that there is one primary objection to the proposal made by Mr. Dunbar. There are a great many brokers and dealers who are not members of the National Association of Securities Dealers, Inc. who are undoubtedly guilty of the practice of over-pricing and who would be able to operate without comparable regulation during the trial period. I feel that it is particularly appropriate that the practice of over-pricing be curbed during the next few years for the reason that many American citizens, during that period of time, will have an increasing amount of earnings which they will desire to invest. If they can be protected from the unscrupulous dealer in securities during that period of time they will be in a better position to aid the war effort by purchasing increased amounts of Government securities.

It is my personal opinion that the suggestion made by Mr. Dunbar is not satisfactory and would result in delaying the adoption of some rule which will curb the fraudulent practice of selling securities at prices which bear no reasonable relationship to the current market. The Commission has, by administrative action during the past years, sought to enforce this principle and has instituted a number of proceedings against the dealers who have engaged in this practice.

One difficulty with this procedure is that the Commission can not only after members of the public have been victimized. A rule of the type proposed by this Division would put in the hands of the customer the essential information concerning the

market before he completes a transaction with a dealer, and thus would enable him to protect himself. This is consistent with the Congressional policy contained in the Securities Act of 1933 and the Securities Exchange Act of 1934, both of which lean heavily upon the disclosure principle as a means of preventing security frauds.

Another difficulty with proceeding as the Commission has heretofore in these cases arises from the loss of personnel due to the demands of the military services and other war activities. It is becoming increasingly difficult for the Commission to maintain its supervision over the practices employed by securities brokers and dealers and it is felt that our loss of manpower can be offset in part by a rule which will enable the customer to protect his own interests.

I trust that the foregoing will prove helpful to you in answering your consultant. As requested, I am returning Mr. Dunbar's letter.

Very truly yours,

James A. Treanor, Jr.
Director

Enclosure

JATreanor,Jr/mej