

FEB 20 1951

STATEMENT OF HARRY A. McDONALD, CHAIRMAN, SECURITIES AND EXCHANGE COMMISSION, BEFORE THE COMMITTEE ON INTER-STATE AND FOREIGN COMMERCE OF THE HOUSE OF REPRESENTATIVES, MEETING IN EXECUTIVE SESSION, FEBRUARY 23, 1951

Mr. Chairman and gentlemen of the Committee:

My colleagues and I appreciate your invitation to come here today. We at the Commission feel that these informal meetings with the Congressional committees responsible for our legislation are all to the good. If at all possible -- we know how busy all of you are -- we think it would be an excellent idea to have the Commissioners and some of our top staff people meet at intervals with you gentlemen and discuss our common problems. The Congress has delegated certain responsibilities to the Securities and Exchange Commission, including the duty to make periodic recommendations on the need for new legislation, and this Committee, of course, has a continuing jurisdiction with respect to the Commission's activities. We like to think that you and we are on the same team in our joint efforts to protect the investing public of America, and to do so with the least possible interference with honest business. We like to think also, if I may say so, that the contact between our Commission and this Committee should not be limited to occasional reports, communications and formal public hearings, but that much is to be gained by meetings such as this in which we get to know each other better and can speak with a degree of informality. And so I am going to make this prepared statement quite brief, with the thought that more can be accomplished by way of informal conversation and questions afterwards.

As I understand, the primary purpose of this meeting is to determine whether there is any important emergency legislation affecting our Commission which we feel should receive the prompt consideration of this Committee. We have no such emergency legislation in mind. The statutes we administer contain ample powers today to take care of any emergency that we can conceive of. Section 19 (a) (4) of the Securities Exchange Act of 1934 authorizes the Commission, with the approval of the President of the United States, summarily to suspend all trading on any exchange for a period of not more than 90 days whenever in the Commission's opinion such action is necessary or appropriate for the protection of investors. For some years we have had the necessary orders drafted for prompt submission to the President in the event that an emergency should make it necessary to close any or all of the country's stock exchanges. These documents were first drafted when Hitler marched into Poland. They were brushed off at the time of Pearl Harbor and again reviewed on the sudden death of the late President. Fortunately, while we were ready to proceed on each of these occasions on a moment's notice, it was not necessary to take such drastic action. When we remember that the New York Stock Exchange and the others closed their doors from July 31, 1914, until December 12 of that year -- a period of more than four months -- we like to think that perhaps the passage of the securities laws and the existence of the SEC had something to do with the fact that all the exchanges were able to stay open right through every crisis that we have had since the creation of the Commission.

While we contemplate no legislative proposals of an emergency nature, it is my understanding from the Clerk that the Committee also wishes to hear of any non-emergency proposals that we may have. There are several such proposals which are likely to require the consideration of this Committee during the present session of the Congress. We assume, of course, that legislation having to do with our defense effort must receive top priority. We assume at the same time that, subject to that priority, we must not ignore entirely any clearly expressed need for corrective legislation in the field in which we operate. This is particularly true because of the indications that the present international crisis, unfortunately, is apt to be of substantial duration.

The senior members of this Committee will recall the long hearings that were held in the weeks immediately before and after Pearl Harbor on a substantial number of proposals to amend the basic SEC statutes -- the Securities Act of 1933 and the Securities Exchange Act of 1934. Those hearings followed long conferences which were held between the Commission and representatives of the securities industry. As to many of the proposals the Commission and the industry were in agreement; as to others they were in disagreement. That general legislative program died with the war. And we now think that perhaps our 1941 program was too elaborate. Consequently, in the last few years we have turned our attention, together with representative groups of the industry, to the particular segment of that program which is most in need of Congressional attention. That has to do with the basic prospectus provisions of the Securities Act of 1933. Only about two weeks ago a number of groups representing the

securities industry handed us a proposed bill embodying their ideas. We in the Commission hope to give them our reaction in the very near future and I think it is highly likely that, whether we agree or disagree, the industry or we or both will have specific proposals to submit for your consideration before too long.

When we come to that stage, we shall also be prepared to comment on two independent proposals which have been made by the New York Stock Exchange. One is to repeal Section 16 (b) of the Exchange Act. That is the section which provides for the recapture of certain short-term trading profits made by corporate insiders. Instead the Exchange would amend the reporting provision with respect to such transactions to require the insiders to file reports immediately rather than on the tenth day of the month following the transaction, which is the present statutory requirement. The other proposal of the Stock Exchange is to exempt from registration under the Securities Act of 1933 certain securities which have been registered and traded on an exchange for more than three years.

A separate proposal -- and one which has received the virtually unanimous endorsement of all segments of the securities industry -- is a recommendation of the Commission that the Securities Exchange Act of 1934 be amended to make its registration and reporting and proxy and insider-trading provisions applicable, by and large, to all corporations which have at least 300 security holders and \$3,000,000 of assets. Today those provisions apply only to companies which choose to list their securities on an exchange. You will recall that in 1946 and again last

year we sent detailed reports to the Congress summarizing the studies which we made of the proxy and reporting practices of non-listed companies, and stressing the need for appropriate legislation. In the last Congress identical bills were introduced by Senator Frear and Representative Sadowski. Hearings were held by a subcommittee of the Senate Committee on Banking and Currency last February, but the Korean crisis and other legislation of a more vital nature prevented any further action in the Senate and it soon became apparent that there was no particular point in holding hearings on the House bill. The Senate hearings convinced us that certain changes were necessary in the bill as originally proposed by the Commission. We believe there is ample room for discussion of the details of this measure, but that the measure is basically sound and essential in order to close a serious gap in the present legislative scheme. The problem is one which the Congress was well aware of in 1934, but which it then confessed it did not know how to solve. We now think that we have the answer, and we hope at an appropriate time to be able to persuade you to that effect.

One other proposal which the Commission first made in 1945 is to amend the Investment Advisers Act of 1940, which today provides for little more than a census of the country's investment advisers. Because of the lack of any power to require advisers to have written contracts and keep certain records, as well as the absence of any authority comparable to the Commission's power to inspect registered brokers and dealers, the Commission can do very little about the fringe operators and the

tipsters in the investment advisers field. Here again I refer you to a brief report which the Commission sent to the Congress on January 31, 1945. We still feel that the proposals we there made are sound and in need of attention, but it is our view that the proposals with respect to the 1933 and 1934 acts should receive priority.