

ADDRESS

of

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Before I was appointed to the SEC, I thought I had a pretty good idea of what the Commission did, and I thought I knew something about government. What is more, I had some pretty clear ideas on what the Commission should do and what government should do. Among other things I felt that all this talk about the need for greater cooperation between government and business ought to begin to be translated into action. It seemed to me that because of my long experience in the securities business, I might be in a position to aid, in my small way, in bringing this about at least in the SEC. If any one thing was most important in moving me to give up my business and enter the field of government, it was without doubt the belief that here was a field of public service in which I felt I might be able to contribute something. Here was a corner into which I might succeed in bringing some of the light of understanding between men which is the essence of cooperation.

I must confess that when I came to Washington I was led to be somewhat apprehensive about the color of the philosophy of persons high in the government service. In view of the vague generalities which all of us have heard, there was reason to anticipate a lot of wild-eyed individuals whose sole aim in life was to destroy the capitalistic system. Let me take this opportunity to assure you that I have found all those with whom I come in contact highly intelligent and laboring day and night to accomplish just the reverse. They have a keen appreciation of the fact, that our economic and financial processes have to be saved primarily from their own blunders and abuses if individualism is to continue as a going order.

Another thing which I anticipated about the Commission was that it devoted the greater part of its time to consideration of the problems of the New York Stock Exchange, and spent the rest of its time on a few other matters which would get the headlines. It seemed to me, from what I had thought

was my fairly well-located point of observation, that while working in Washington might be fairly good sport, it would probably not tax one's energies to any very great extent. Now, although I had spent a good many years in Wall Street, I still regarded myself as a small-town -- Southern small-town -- boy. And I was pretty conscious of the importance of small towns. In short, it was probably natural that I should feel that there must be a good many matters outside of New York which were escaping the attention of the Commission.

Now let me tell you about my first few weeks of experience as a member of the SEC. In just a minute, I am going to give you a few details of a typical day at Commission meeting, but before I do that, I want to say that only once in those first few weeks did I hear the name of the New York Stock Exchange mentioned in meeting - and that was only incidental to the problems of a Far Western exchange. It was one of the greatest surprises I have ever experienced.

Here is the typical day I have mentioned - taken from the official minutes of the Commission - with all five Commissioners sitting. I want you to note particularly the geographic aspects.

The Commission met at 10:40. First a certain New England bank which held securities in a utility company wished to be exempted from certain filing requirements under the Public Utility Holding Company Act of 1935. After listening to the men on our utility staff for fifteen minutes we gave them directions for the disposition of the matter. Next, we authorized a Commission employe to testify in a criminal proceeding in Los Angeles involving offenses which had been under Commission scrutiny for several months. Then we authorized the General Counsel to institute injunctive proceedings in eleven cases in Texas, New York, California and Colorado involving stock frauds, bucket shops and other forms of swindling.

Now entered seven experts from the Registration Division who asked us to consider whether certain involved engineering methods employed by a Middle Western company in arriving at an appraisal constituted deficiencies and whether the company's depreciation policy was adequate. Experts from the Utilities Division appeared again with reference to the application of a very large corporation to be exempted from the Holding Company Act. Everyone of you would know this company if I were to give you its name. It presents problems which you all would recognize as extremely complicated and as national in scope. After considering the application for some time, we were able to determine general policy and instruct our utility men how to proceed.

We then authorized the Legal Division to make available to the Pennsylvania Securities Commission our files in an investigation of what appeared to be a securities fraud in Pennsylvania. It was an intrastate case in which we had no jurisdiction, so we were helping the State Commission. Next we adopted an order authorizing an investigation into a broker-dealer in the Chicago area. Here we had received reports that he had neglected to inform us of an enforced penitentiary vacation ten years ago in a stock fraud case. A stop order against a South Western oil company was approved. This matter had been before the Commission for several months in the examination, hearing, and opinion-writing stages. Our next action was to revoke the registration of another broker-dealer in the State of Washington, again on the basis of evidence obtained at a hearing. Then we approved the issuance of a stop order against a New Jersey Investment Trust.

On top of this we were called upon to decide and did decide that a certain New York corporation should have valued its inventory at the lower of cost or market instead of at cost, directing our opinion to be communicated to the registrant. The case of another broker-dealer, this time from Florida,

then came before us and we authorized proceedings to determine whether his registration should be revoked or suspended.

In connection with a middle western utility company which wished exemption with respect to the issuing of certain promissory notes, we set down a hearing. For a broker-dealer in New Hampshire, we accelerated the date of his registration so that he would not have to wait for full 30 days before commencing business. Moving into the field of oil royalties we summoned one promoter to Washington for hearing which our royalty department told us called for quick action. We temporarily suspended the effectiveness of six other royalty offerings from California and Texas, notifying the respondents of their right to a hearing; we fixed the effective date of amendments to two more such offering sheets and revoked temporarily suspension orders which had been issued against these two offerings. We then, with a sigh of relief adjourned at 1:35 P.M.

Mark you, this was just a Saturday morning. I chose a Saturday because I didn't want to bore you with the details of a full day's matters. On weekdays we would have gone back to meeting at 2:30 for three or four hours more of the same.

There was no headline material here. Mostly it was pretty dull work, but it required great care to avoid doing injustices either to the applicants in question or to the public with whom they were to deal. The size of a matter has little to do with the intrinsic merits of a situation, and I have seen the Commission spend more time on whether some little broker or dealer should be allowed registration than on a question of accounting involving hundreds of thousands of dollars. No, this is not headline material but it is the warp and woof of regulation; it is what regulation is supposed to accomplish, the preservation of equity between the financial world and the public.

Were I to describe all the activities sufficiently for you to grasp their infinite variety -- work which necessarily goes into even the smallest matter -- I should require several thick volumes. But I am not boasting about the amount of work we do; I am trying only to give you some idea of the scope of our routine activities. Since the beginning of the administration of the Securities Act of 1933, which includes a little over a year of administration under the Federal Trade Commission, registration statements for over \$13,500,000,000 of new securities have been filed. All of those statements, nearly 3,600 of them, have been expertly examined, even in those instances where they never became effective. Sometimes, comparatively infrequently, we have had to issue stop orders; 105 all told, involving some \$30,000,000 now being in effect. There are none of these cases, I am sure, with which you would take issue. Virtually all of them are the kind of things which have tended to bring discredit on your business - schemes to mulct school teachers and preachers in Tennessee, shining doodlebugs guaranteed to find Nevada's gold and silver, New England sewage streams capitalized as valuable brewery water rights, concealed assessment provisions in mining securities, and so on.

Once in a while we manage to get the headlines with a criminal proceeding. This was true when we obtained indictments against the \$10,000,000 so-called Kopald-Quinn ring which was charged with rigging the over-the-counter market on a nation-wide scale. Operatives in this ring were working out of Chicago, Duluth, Fort Wayne, Indianapolis, Denver, New Orleans, Dallas, Houston, Wilmington, Atlanta and Detroit -- and even out of Minneapolis and St. Paul. The trial lasted for 75 days, one of the longest in the history of the Federal Courts. The three leading defendants were sentenced to five years each in a Federal prison and the two major company defendants were fined \$55,000 and \$10,000 each. It is difficult to judge exactly the extent

of the effectiveness of this kind of action but you can be sure that the breaking up of a ring like this puts out of commission a great many more racketeers than are actually named in the indictments. We have obtained 130 injunctions against 600 firms and individuals, and have also secured jail sentences in some cases. The injunction, while not as dramatic as the indictment, is an effective means of stopping an illegal practice. There are a few cases which were not as large as the Kopald-Quinn case but which indicate to some extent the nature of the enforcement work in which the Commission is constantly engaged. For example, on February 12 of this year, the President of the Union Trust Company in Denver, one of the oldest and apparently most reputable institutions in the Rocky Mountain area, was sentenced to serve five years in Leavenworth and to pay \$25,000 fine for violating the Securities Act, mail fraud statute and conspiracy statutes. In the same case, the President of the Bankers National Securities Corporation of Denver was sentenced to serve 15 months for conspiracy. These individuals were convicted of having induced investors to switch their investments to stocks of corporations affiliated with the Union Trust Company by means of untrue representations. In Detroit on another case, five men were convicted and sentenced to terms totalling 19 years and fines totalling \$50,000, in connection with the sale of stock of a local company. These individuals had sold securities which were not registered with the Commission as required by the Securities Act and had claimed that the stock sold was the Company's stock, while as a matter of fact, they were unloading their own holdings. Looking up the history of the S.E.C., I find that in New York a year or so ago, two prominent operators were sentenced by a Federal Court to serve terms of two years each in connection with the sale of oil royalties. Among the numerous misrepresentations they had made, was the claim that the United States Government approved

of every transaction whereby a member of the public bought their securities. That may sound fantastic, but as a matter of fact it is not at all unusual. Another case of a slightly different nature in Los Angeles resulted in a conviction for perjury. The defendant had testified falsely in an investigation conducted by the Commission. He was sentenced to three years and a fine of \$1000. I doubt if any of you ever heard or read of many of these cases.

Incidentally, in looking over our records I find that with the exception of the Kopald-Quinn case, the Twin Cities have a clean slate with us. I failed to find any broker-dealer suspension or revocations in the area, nor any injunctive or criminal proceedings in the securities field. In fact the record is so good that it makes me suspect that perhaps we had better have one of our so-called flying squadrons look the situation over. It is almost inconceivable that on the outer fringes there are not at least some racketeers preying on the good reputations which you leaders in the securities business have built up.

I don't want to leave the impression that we are occupied merely with routine matters, or that we are vindictive policemen out solely to catch crooks. In addition to the specific tasks which are allotted to us by statute, there is much additional work to occupy the Commission and its staff in their eagerness to do a good job. Most of this is background work, but it is no less important by reason of that fact. I have no intention of detailing all the aspects of this work, but I should like to mention a few phases of it. There is, for example, the Division of Forms and Regulations which strives constantly to see to it that information filed with the Commission and made available to the public under the three Acts shall be truly revelatory and yet capable of being presented with a minimum of cost to the registrant. Then there is the Legal Division, which not only spends much of its time in

those functions which are an essential part of the administrative work of a government agency which operates under definite statutes, but which also occupies itself in explaining procedures and interpreting the laws and regulations under the Acts to **persons** who have business with the Commission. Of course, there are other divisions of the Commission which I might comment upon, but I pass on to the Research Division, which is particularly close to my heart and head, for one of my tasks as Commissioner is to act as administrative supervisor of this Division. Time does not permit the enumeration of the varied tasks which are carried out in this Division, but a few of them may be mentioned in passing. It keeps the Commission informed on the economic and financial conditions which make up the background against which we work, and it also engages in special studies which provide much of the factual data upon which the Commissioners base their decisions as to policy. Finally, through this Division, we are making rapid strides in the publication of the sort of information which not only keeps the public informed as to what is going on in the financial field, but which also constitutes useful material for the investor and for the experts who advise him.

You remember, I spoke of my belief that here was a field in which a practical effort at cooperation with business could and should be made. Well, how do you suppose those twelve billion dollars of registration statements ever became effective? I think I am correct in stating that not a single one of them has ever been filed which did not require correction and amendment before it became effective. In most cases, the changes and additional material which must be filed are very substantial. However, if you read the Securities Act very, very literally, you may decide that the Commission is merely a depository for information. In fact, the Commission itself could have decided that it was not its duty to examine every statement that

came in. It might have decided that the responsibility for correctness, accuracy and completeness was entirely with the company filing the statement and its underwriters and accountants. You can well imagine where this would have left the issuers, underwriters and accountants. They would have had to stand or fall before the attacks of security holders entirely on their own. Of course, they still must do that, but it is easy to see how much more chance for error there would be if it were not for the careful examination by the SEC. Countless small omissions and errors, any one of which might have proven tremendously costly in stockholder actions, are caught by the Commission and corrected at its suggestion. All this work is done by consultation, correspondence and conference with representatives of business. This is real cooperation, and it goes on every day, all day at the SEC. And it has been going on since the SEC began. The Commission realized at the outset that its first job was to make its legislation work, and it knew that this could be accomplished only by making business understand what it was all about and actually taking issuers and underwriters by the hand and leading them through the processes of the law.

Another example of this same kind of cooperation has occurred in our Public Utility Holding Company Act. If there ever was a piece of legislation which scared the business it was designed to regulate it was this law. The Commission was called upon to register all holding companies, to exempt all those which appeared to deserve exemption, to pass upon the issuance of securities, and upon the acquisition and disposition of property. It was required to set up accounting and reporting standards, to regulate the activities of service companies, and finally to bring about the geographic and economic integration of holding company systems. It was a large order for the Commission and a terrifying prospect for the business. I need not go

into the history of the litigation which we understand is now drawing to a close, but I would like to give you some indication of the type of cooperation which has been going on in that field.

At the outset, a few companies decided to register. None of them knew how to do it. The Commission and its staff spent hours and days with those companies, showing them how to do the job which was before them. It was a slow job, because there was possibly not a great deal of confidence on either side. But gradually, those companies began to unfold their problems to us. In most cases this was done informally and at the conference table -- in many cases, nothing was put into writing for weeks. Our men knew that they were green and inexperienced, and the utility men recognized their own limitations. Finally small portions of plans began to appear. A small holding company with two subsidiaries worked out a plan of merger which eliminated it from the holding company field.

Other companies began to file plans for the issuance of securities and the acquisition or disposition of small parcels of assets. And finally, a large company came down and asked us to consider their problem under the dreaded death-sentence. We did not say, "Bring in a plan and we'll tell you what we think of it after examination." Instead we asked them to sit down in conference with us and tell us their ideas, and at each point we showed them what they could do and what the law would not permit them to do. And finally, they went back to New York and put the thing in writing. Then, and only then, did it become a matter of public record. We had not approved their plan, but we had showed them the broad outlines within which they could work and we had showed them that we could work with them like reasonable men. Ultimately the plan was approved, with some changes and after public hearings. This is typical, and I know that the leaders in the

industry recognized it as typical, because more and more they began to come and talk to us and work out their plans with us. This has been invaluable, though unseen, spade-work. There is no doubt that because of it, the job of the utility industry and the job of the government under the Holding Company Act, will move forward much faster than could ever otherwise have been possible.

I had heard a lot about the Commission's theory that business should be encouraged to assume to the greatest degree possible its own self-regulation. But I know, now, after two months in Washington that this is no mere idle theory. It is the living driving force of the S.E.C. It expresses itself in almost every major action of the Commission. I have just recited a phase of the story of cooperation in the holding company field, but it should be noted that behind this is the fundamental belief in the Commission that the industry can and should initiate its own solutions to the problems of geographic and economic integration arising under the Act. Typical, also, is the story of our recent relations with the New York Stock Exchange. The Commission has said again and again that it believes the stock exchanges should undertake to police their own members and that it would be unfortunate if the S.E.C. itself had to put an agent in every brokerage office. The Commission believes the exchange should perform its duties so well that very little annoying snooping by the government should be necessary. It was to this end that it urged a reorganization of the Exchange along modern business lines. When you consider how revolutionary this idea appeared to be in November, it is difficult to imagine that it has now, in March, all but been adopted without a murmur or protest. Again - in the over-the-counter field the S.E.C. began three years ago to urge and foster the development of machinery for extensive self regulation under broad government supervision. At the

present time, it appears that this aim will shortly be achieved as a result of the passage of the Maloney Bill. By means of this bill it is anticipated that a mechanism will be established in the over-the-counter markets to promote just and equitable principles of trade, to prevent fraudulent and manipulative practices, to eliminate unreasonable profits, to promote accuracy of quotations and, in general, to protect investors by improving the operation of a free and open market. The basis of the bill is voluntary rather than compulsory participation in this projected program.

So, now you may wonder what I do in Washington since I have found that first of all the S.E.C. already has a broad national viewpoint and that cooperation with business is its daily diet. The answer is that I spend my days, and often my nights, and sometimes even my Sundays working on the details of problems which arise from every corner of the nation. There is something of an irrational quality in public service work that gets you. It is not easy. There are neither union nor Wall Street hours. You are frequently misunderstood by outsiders. The work exacts big financial sacrifices and other tolls from you. You work like the dickens and you don't expect any reward (except your modest salary), or any thanks. But I like it.