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U.S. Committee on stock exchange regulation.

STOCK EXCHANGE REGULATION

LETTER

FROM THE

PRESIDENT OF THE UNITED STATES

TO THE

CHAIRMAN OF THE
COMMITTEE ON BANKING AND CURRENCY

WITH AN ACCOMPANYING REPORT RELATIVE
TO STOCK EXCHANGE REGULATION



Printed for the use of the Committee on Banking and Currency

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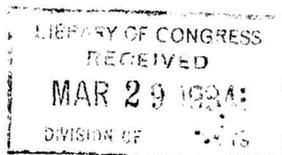
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LETTER OF TRANSMITTAL

THE WHITE HOUSE,
Washington, January 25, 1934.

HON. DUNCAN U. FLETCHER,
Chairman Banking and Currency Committee of the Senate,
Washington, D.C.

MY DEAR SENATOR FLETCHER: Early last spring at my request the Secretary of Commerce formed a committee for the study of the problem of Federal legislation looking to the regulation of the issuance and sale of securities in interstate commerce. Out of this study grew my recommendation which later resulted in the enactment of the Securities Act of 1933.

The other division of the study relates to the regulation of stock exchanges. A committee under the direction of the Secretary has also been pursuing this study and this report is being transmitted to you herewith in the hope that it may be of some assistance to you and the other members of your committee in developing legislation on this subject. I shall be glad at the proper time to confer with you and any other members of your committee with regard to the policy or program that occurs to me in this connection. In the meantime I shall leave with you and your associates the matter of the construction of the legislation with the understanding, of course, that the departmental committee will be very glad to cooperate with you in every way it can.

I am sending a copy of the report also to the chairman of the House Committee with a similar letter.

Very sincerely yours,

FRANKLIN D. ROOSEVELT.

LETTER OF SUBMITTAL

DEPARTMENT OF COMMERCE,
Washington, January 23, 1934.

HON. FRANKLIN D. ROOSEVELT,
*President of the United States,
The White House, Washington, D.C.*

DEAR MR. PRESIDENT: I am transmitting herewith a report made to me by the committee which has been engaged in a study of the problem of stock-exchange regulations.

It will be observed that the Committee on Stock Exchange Regulation has not undertaken to prepare a draft of a bill carrying into effect its suggestions. Since we began our study of stock exchange regulation, the Banking and Currency Committee of the Senate have been conducting an investigation along the same general lines, but more extensive in nature. Our committee has, accordingly, endeavored to keep in touch with Senator Fletcher's committee in a fully cooperative manner. In view of this situation, it may be that you will desire to transmit the study of our committee to the Senate Banking and Currency Committee for such use as its members may be able to make of it. Our committee will be glad to cooperate with Senator Fletcher in any way that he may think we can assist in constructing any bill or bills which he may wish to present to the Senate on stock-exchange regulations.

The major points and recommendations covered in this study are:

1. To require that exchanges shall receive a Federal license as a condition permitting the use of the mails and of interstate commerce instrumentalities for transmitting their quotations in all communications respecting sales and other transactions on such exchanges.

2. There should be established an administrative authority with broad discretionary powers to require the exchanges to adopt and enforce rules and regulations in a form satisfactory to the administrative agency and of such character as to establish a minimum standard of fair dealing on such exchanges.

3. The adoption of satisfactory rules and regulations which, in the event of violation, would give the Federal agency authority either to deprive such an exchange of its license or to suspend it or fine it, or to require a change in its governing personnel.

4. The study recommends that the form and content of stock-exchange rules governing such matters as pools, margin trading, specialists, short selling, listing requirements, retailing methods, reports, and accounting shall not be set forth in detail in the statute, but shall be left to be prescribed by the administrative agency in accordance with the broad standards of the statute and above a certain minimum requirement.

5. In relation to the recommendation set forth on the preceding point, it is therefore proposed to require the suggested administrative agency to engage in the full and adequate collection of statistics upon which to base its rules and regulations, with a flexible power to alter these from time to time as a fuller knowledge may require.

It is gratifying that the committee is unanimous in its recommendations, as indicated by the fact that all members have signed the report.

I am attaching with this letter a report on the regulation of commodity exchanges, which presents the conclusions of the committee, stating that, while the problem of stock-market regulation and regulation of commodity exchanges involve many of the same abstract issues, they are nevertheless essentially different, both as to the concrete problems with which they deal and as to the groups and classes of persons whom they primarily affect.

The report of this committee, relative to the Securities Act, with recommendations as to possible revisions and changes, will be ready for submittal to you not later than January 26.

Very sincerely,

DANIEL C. ROPER,
Secretary of Commerce.

REPORT TO SECRETARY OF COMMERCE
OF
COMMITTEE ON STOCK EXCHANGE
REGULATION

(1)

INTRODUCTION

Your committee regards certain of the disclosures before the subcommittee of the Senate Committee on Banking and Currency during the past year and a half as imposing an imperative obligation to devise constructive measures for the prevention of those practices which have shocked the conscience of the Nation. There has been revealed the spectacle of certain leaders in the world of finance who, while standing in a fiduciary relation to the stockholders as directors in corporations, have engaged in stock-market transactions which could not but redound to the ultimate disadvantage of the shareholders. There has been uncovered the presence of some pool operations which have artificially influenced the price of shares to the disadvantage of the private shareholder and in the hope of speculative gains to the participants. There has been revealed, on the part of certain persons occupying high positions in the banking and financial world, an attitude toward the interests committed to their charge which is not in accordance with those high standards and ideals which the public had been led to expect of them. There has also been revealed on the part of the general public a tendency toward unintelligent and senseless speculation which, lending itself to exploitation by high pressure selling methods and through the medium of marginal trading and some of the other practices revealed in the investigation, has stimulated security values to unsound levels from which they have inevitably receded with disastrous consequences to the whole national economy.

Market fluctuations caused by the condition just outlined have repercussions which extend far beyond the stock exchanges and the circle of individuals who trade in securities. There is a relationship between fluctuations in the stock market and unsettlement in business conditions, based on the fact that stock-exchange movements are apt to be regarded by both business men and the general public as an indicator of underlying conditions. A violent fall in the stock market consequently may lead business men to curtail commitments and activities, thereby increasing unemployment, while on the other hand a sharp rise in the stock market may lead to expansion of business activity beyond the bounds of sound economics. Likewise, the stock market vitally affects credit, which in turn directly affects commercial conditions. In part this is due to the practice of banks in making loans upon stock-market collateral. In part it is due to the fact that institutions such as savings banks and insurance companies hold as investments securities listed on the exchanges, and fluctuations in quotations affect the apparent financial soundness of these institutions. When these considerations of general economic welfare are united to practices and methods which are either unethical or unsound, or both, the country has seen the result in a succession of financial disasters whose consequences affect the whole Nation.

With this spectacle before it, your committee believes that no single piece of legislation, however comprehensive, will be able to deal effectively with all aspects of the situation which may require governmental action. The problems lie in different fields of banking, corporation law, taxation, issue and sale of securities, and stock-market regulation. In some of these fields, a beginning at dealing with the evils disclosed has been made in statutes already passed, such as the Glass-Steagall Banking Act and the Securities Act enacted at the last session of the Congress.

Your committee realizes that, perhaps, the most effective way to deal with certain evils connected with manipulation of stock by directors and officers, issue of stock to insiders for inadequate consideration, incomplete publicity of corporate accounts and similar problems is by the requirement of Federal incorporation for corporations engaged in interstate commerce. These particular problems can, however, to some extent, be dealt with through the regulation of stock exchanges and stock-exchange operations. Since the terms of reference under which your committee has been operating emphasized primarily the question of stock-exchange regulation, this report will concern itself as to ways and means of controlling these and other evils by the method of regulating the exchanges.

Your committee believes that under a realistic interpretation of the Constitution, stock-exchange operations and transactions may be constitutionally regulated by the Federal Government through the use of the postal power and the power to regulate interstate commerce and its incidents. On this assumption, a statute would, we believe, be valid which would provide that unless an exchange operated under a license issued by the Federal Government, no quotations of prices on such exchange, no offers to buy or sell, no contracts or communications relating to the transactions on such exchange, could be transmitted through the mails or by means of the instrumentalities of interstate commerce. In the event of such requirement of a Federal license, there would be attached to the license as conditions of issue and continued enjoyment, compliance with the regulatory requirements outlined by the statute. This is analogous to the system of Federal regulation applied to grain exchanges by the Grain Futures Act, and held constitutional by the Supreme Court. (*Board of Trade v. Olsen*, 262 U.S. 1.) Other possible sanctions are discussed below.

The question remains, assuming the constitutionality of such regulation, whether it should be imposed, what form it should take and what particular regulations should be included.

In attempting to deal by legislation with these questions, two considerations, your committee believes, must be kept in mind. The first is that many practices can be turned to the abuses of greed and dishonesty which are not in themselves necessarily promotive of evil, but which, so long as a speculative market is permitted to exist, may serve ends appropriate thereto, and the abolition of which would cause inconvenience without preventing greed and dishonesty from resorting to other methods for accomplishing their objectives. The second consideration is that many of the practices through which greed and dishonesty operate are inseparable from the existence of a market in which securities may be readily bought and sold, and we

are thus brought face to face with the question of whether this country at the present time desires, or could stand reforms so radical as to abolish such a market or curtail speculative practices which contribute to the liquidity of such a market. Certainly no good would be accomplished, for example, by leaving the door open to unlimited speculation on the upside of the market, while seeking to curtail speculation on the downside.

We feel that the general objectives of regulation of stock markets are three:

(1) The specific practices of the market must be made reliable and clean, no matter what point of view is adopted with regard to the larger questions; and

(2) So far as possible, the aim should be to try to create a condition in which fluctuations in security values more nearly approximate fluctuations in the position of the enterprise itself and of general economic conditions—that is, tend to represent what is going on in the business and in our economic life rather than mere speculative or “technical” conditions in the market; and

(3) The steady accumulation over a period of time of information which will afford a better basis for determining whether as wide and as dangerous machinery as now exists is really necessary to secure liquidity of security values.

This last question involves the broad problem as to whether liquidity, through the mechanism of stock markets, should be encouraged or discouraged. Your committee is not now in possession of information permitting determination of this broad question. From one point of view it is arguable that the attempt through exchanges to give liquidity to tremendous bodies of the national wealth is an element of fragility in the economic structure. Your committee takes note of the fact that a relatively high degree of liquidity exists in the bond market apart from the existence, to anything like the same extent, of some of the practices of the stock market which are now the subject of criticism. Further, your committee cannot but take note of the fact that the translation of an extremely large percentage of the national wealth into the form of liquid securities has widespread social effects.

Without passing upon any of these problems now, the conclusion has been reached that any regulatory mechanism should accumulate the necessary data to permit formulation of a national policy; and should likewise be implemented sufficiently so that a policy, when reached, can be carried into effect. It would, in the opinion of the committee, be unwise to attempt at this time to reach final conclusions as to many of the features of such a policy, because the deeper questions involved have yet to be considered in the light of full data, and because the quantitative effect of many stock-exchange practices are not yet fully disclosed.

I. METHODS AND MECHANISM OF REGULATION

Your committee believes that the major problem involved in any consideration of proposed stock-exchange regulation relates to the methods and mechanism through which the proposed regulation is to be applied. Your committee believes that the most practical

solution from a long-range viewpoint, assuming such legislation to be desirable, is to enact a measure which will provide a system embodying the minimum of specific regulatory provisions in the statute itself and the maximum of discretionary powers of regulation in an administrative agency.

Your committee believes that at this time a mechanism ought to be set up which is—

- (a) Capable of collecting necessary information;
- (b) Capable of being used to carry out a policy as it shall be developed; and
- (c) Flexible enough to permit meeting of situations, both specific and general, as they shall have been fully disclosed and developed.

This conclusion is based on the fact that while it is possible to outline legislation devised to correct known wrongs, it will be of little value tomorrow if it is not flexible enough to meet new conditions immediately as they arise and demand attention in the public interest. Stock exchanges raise essentially new problems in Federal regulation. They do not present a static situation susceptible to fixed standards. On the contrary, it is a highly dynamic, ever-changing picture, subject to untold and unknown possibilities and combinations that are today unpredictable. The thing to be avoided is the placing of this complex and important mechanism in a strait jacket.

Your committee has considered as an alternative suggestion that the proposed enactment cover in its detailed provisions all known unfair, inequitable, and unsocial practices by express provisions with a minimum discretionary power of regulation by the governmental body responsible for enforcement.

While it is possible to fix by law certain basic standards as a guide to conduct in the matter of regulation of exchanges, these must be limited to minimum requirements. The point specifically is that while certain provisions might be included in any regulations, such provisions should not be the only power of correction left open to an administrative agency, but it should have broad discretion to operate directly on various abuses as the future may prove them to exist. It is not proposed that the Government so dominate exchanges as to deprive these organizations of initiative and responsibility, but it is proposed to provide authority to move quickly and to the point when the necessity arises.

If the suggestion outlined above is sound, it follows that the agency entrusted with such responsibilities must be coordinated with certain functions which the United States Government has already assumed. The functions here outlined fall within the realm of the rapidly growing problem of corporations and corporate finance, with which the United States Government has had to occupy itself increasingly in recent years. At the same time, the problem of the stock exchanges cannot be divorced from the handling of bank credit, since the interrelation of bank credit with stock speculation has been a major characteristic of stock-exchange development in the past two decades. Moreover, the work of such an agency should be correlated with the mechanism adopted to administer the Securities Act, and also it must interrelate with the machinery of the Federal Reserve banks in connection with short-term credit and credit extended

against securities. At the same time, it must be recognized that a Government agency operating in this field, and endowed with wide powers to license or close exchanges, coupled with a reserve power to license individual brokers as more fully discussed hereafter, and to make rules and regulations concerning a delicate mechanism like the stock exchange must be in the highest degree effective, nonpolitical, able to act rapidly, and at the same time so constituted as to place responsibility to the fullest extent possible on the private bodies now handling the work of security exchanges.

Your committee believes that an effective solution would lie along the lines of establishing an administrative agency which will hereinafter be designated as the "Federal Stock Exchange Authority." It would be appropriate to unite in such an agency the regulation and supervision of stock exchanges and the administration of the present Federal Securities Act. This raises the question as to whether or not the existing Federal Trade Commission should be availed of for such a purpose or whether a new Federal Stock Exchange Authority should be created. If the Federal Trade Commission should be availed of, divisional organization within that Commission should be provided in such manner as would effectively centralize this work in a portion of the Commission and permit its administration apart from the other work entrusted to the Federal Trade Commission. Considerations pertinent to centralizing under one administrative head work of this character, already begun, and work generally concerning trade practices in industries, other than corporate finance, together with the work of collecting statistics on trade and finance, constitute an argument that may be advanced for such a method of procedure. On the other hand, technical specialization in financial matters of this character together with practical problems of administration might dictate as the wisest course the setting-up of a new and separate authority in which the administration of the Securities Act and the regulation of stock exchanges would be vested. The choice between these two devices of administration can only be wisely made in the light of a full consideration of what duties are to be entrusted to the proposed authority and of the efficiency and adaptability of the present Federal Trade Commission to perform the tasks that may be demanded of it.

In either case, the staff of the agency must be especially fitted for their tasks; and the commissioners charged with the work must be men of unusual qualifications who must hold the respect of the country; and such an agency should give continuous representations to the views both of the investing public and of the exchanges, in an endeavor to provide that no hasty or ill-advised regulations would be promulgated by inexperienced men.

Your committee wishes to call specific attention to the proposal that a representative of the stock exchanges should be drawn into the administrative agency. It is believed desirable to provide for such representation, since the field covered is decidedly technical, and the technical view is a necessary contribution on this phase of regulation.

It should be required, however, whether a division of the Federal Trade Commission is adopted, or a new agency is set up, that the holder of any position in connection with the agency should be re-

quired to dissociate himself from all business connections, and should be prohibited from engaging, directly or indirectly, in any market transaction, much as the Secretary of the Treasury is obliged to dissociate himself from any private business.

Should a division of the Federal Trade Commission be selected, it would seem desirable to add at least two members to the Federal Trade Commission, and designate them, with one other member, Corporate Securities Division of the Federal Trade Commission, acting as a unit, independent of the remaining members of the Trade Commission. Should it be determined that a separate commission should be set up, such commission should be composed of at least three members, without regard to political affiliations, appointed for a term of at least 7 years. In either case it is suggested that one of the members of the commission or authority should be required by law to be a man thoroughly experienced in stock-exchange practices.

METHOD OF ENFORCING RULES AND REGULATIONS

Alternative methods by which the administrative agency might enforce such rules and regulations made by it under the statute are:

(a) To provide that unless an exchange received the sanction of approval; that is, a license issued by the proposed commission or division, no quotation of prices on such exchange, no offers to buy or sell, no contracts or communications relating to the transactions on such exchange, and no securities sold or to be sold on such exchange, should be transmitted through the mail or by means of the instrumentalities of interstate commerce; or

(b) To provide that the administrative agency should require individual brokers, members of stock exchanges, to take out a Federal license as a condition of permitting the stock exchange to continue as a Federally licensed body.

Your committee does not consider it desirable to require the licensing of individual brokers. There is a distinct danger that such a system would break down the controls already exercised by the stock exchanges through their business-conduct rules, which operate or can be made to operate with summary speed and effectiveness. If brokers were licensed, it would inevitably come to be thought that the proper method of disciplining a broker would be the revocation of his license by the governmental authority. An exchange might well hesitate to deny its privileges to a broker whose license was still in full force and effect. Inevitably, however, the process of revoking a license would be much less summary than the action of a business conduct committee of the exchange. The proceeding would take place at Washington and not locally. To some extent it would have to follow more or less protracted forms of judicial procedure and would have to be subject to review in the courts. All these factors, while cutting the ground from under the effectiveness of the exchange's own disciplinary procedure, would substitute a procedure slower and less certain of accomplishing results. It seems distinctly better, in the opinion of your committee, to stimulate the exchange to further disciplinary activity by holding it to a high degree of accountability for the conduct of members.

On the other hand, there is a danger in relying exclusively, as a sanction, on the power of the Federal Stock Exchange Authority to revoke the license of an exchange and thereby close to it access to the mails and to interstate commerce. The consequences of closing an exchange are so far-reaching, so many innocent persons would inevitably be injured by such a step, that it might well be that the Stock Exchange Authority would be so reluctant to deprive an exchange of its license that the regulations and orders of the authority might come to be disregarded. This could in part be obviated by providing that in addition to the extreme penalty of revoking the license, the authority might impose upon the exchange the minor penalty of a fine. The authority might also be given power to require an exchange which had violated a condition of its license to change any or all of its officers and/or the membership of all or any of its governing boards or committees.

It might well come to pass, however, that the application of any of these measures, short of the final and extreme one of closing the exchange, would prove ineffective to prevent practices on the exchange which were violative of the terms of its license. If an exchange, through weakness of its organization or through recalcitrancy, proved unable or unwilling to enforce the rules and regulations required by the Federal Authority as a condition of its license, there would seem no other recourse than to bring the power of the Authority to bear directly upon the individual members of the exchange by placing them under license conditioned upon observing the practices in question. In other words, it is suggested that the statute provide that when the Federal Stock Exchange Authority had found, after due notice and hearing, that an exchange had violated a condition of its license by failing to take proper disciplinary action to enforce the rules and regulations required by the license, then and in such event the Stock Exchange Authority might require that no broker trading upon the exchange should continue to do so or should enjoy the facilities of the mails and of interstate commerce in connection with such trading, unless he received a license from the Stock Exchange Authority. In issuing such licenses, the Authority could refuse to do so to the particular brokers who had violated the proper regulations of the exchange and whom the exchange had failed to discipline. The Stock Exchange Authority, upon satisfying itself that the particular exchange in question would henceforth properly abide by the terms of its license, might thereafter withdraw the requirement that the individual brokers on that exchange should be licensed, and might reinstate the exchange.

Your committee has considered as an alternative the suggestion of Federal incorporation of exchanges. Your committee has found no advantage in the incorporation of stock exchanges, whether it be directed toward correcting the situation as regards either the conduct of members or of those using the facilities of exchanges or the listing or unlisting of securities, which cannot be more simply and effectively remedied by the licensing provisions herein proposed. Furthermore, your committee has reached the conclusion that the incorporation of exchanges presents disadvantages over the licensing method sufficient to warrant the conclusion that the incorporation plan is unfitted to meet the needs of the situation.

For example, at the present time most exchanges as unincorporated associations provide in their constitution that elected members must pledge themselves to abide by the decision of the governing board as final arbitrator of charges of infringement of rules and regulations. The penalties that may be inflicted by this board for violation of any exchange rule or regulation by members range from temporary suspension to permanent expulsion. Usually, after charges are made against a member for infringement of rules or of improper conduct to the governing board by one of its committees, and the charges against the accused member provided him in writing, a trial is speedily held and a verdict reached by a majority of governors. The whole proceedings, including the infliction of penalties, are disposed of in a very short time, depending upon the evidence and the seriousness of the charge, judicial review being limited in general to the fairness of the trial, and not reopening the case on its merits.

It has been pointed out by your committee throughout this report that correction of abuses in exchange practices is a matter that must be carried out speedily, since delay, once a decision has been arrived at, may be disastrous. It is this very point that constitutes the strongest argument against the incorporation of exchanges under the normal statutory methods for incorporating exchanges. Were exchange incorporation to be introduced it would allow members to have their cases adjudicated in the first instance in a court of law rather than, as at present, by exchange tribunals. This would mean that every violator of exchange rules and regulations would be automatically provided with a lengthy opportunity to indulge in improper practices, since formal judicial review would probably require many months before actual trial, with the possibility that delays through technicalities might greatly protract the proceeding. In the meantime, the public might suffer greatly since the complained-of condition might involve the question of the member's solvency, and by the time insolvency could be formally proven in the courts, assets might be depleted almost entirely.

Still another disadvantage to formal legal procedure against members for exchange violations is that under the present system charges against members may be based not on specific rules and regulations, but upon what is sometimes referred to as conduct "inconsistent with just and equitable principles of trade." In such instances, while the evidence may be of a less formal nature than that required as legal evidence, still to a board of governors or committee composed of exchange members intimately acquainted with a complicated mechanism the evidence may be so conclusive as to warrant immediate disciplinary action. In such instances lengthy acquaintance with the party or parties involved and their previous conduct and possibly past violations might be factors which only those possessed of special equipment of judgment would fully appraise in proper relation to the improper conduct charged.

DIVISION OF POWERS AND COORDINATION WITH FEDERAL RESERVE BANKS

In one important respect the work of the proposed administrative agency interacts with a quite different agency so closely as to seem to require special treatment. Since no regulation of stock

exchange practices can avoid the subject of margin requirements, the administrative agency is brought fairly in contact with the question of short-term credit. The lending of money to brokers or upon securities in connection with margin transactions is one of the great problems in the banking structure. Under the terms of the Glass-Steagall Act (act of June 16, 1933, ch. 88, sec. 3A, U.S.C.A., vol. XII, sec. 301), the Federal Reserve banks in each district are now charged with the duty of "ascertaining whether undue use is being made of bank credit for the speculative carrying of or trading in securities", but their sole power is to report the facts to the Federal Reserve Board, and the Board may then, in an extreme case, suspend any member bank from the use of the credit facilities of the Federal Reserve System.

It would seem proper to give to the Federal Reserve banks of their districts power, in consultation with the proposed Stock Exchange Authority to meet situations directly, rather than indirectly; and your committee accordingly would suggest that the Federal Reserve bank of any district, together with the proposed agency, should be empowered to prescribe margin requirements; and the Federal Reserve bank of the district should be permitted to warn or suspend from the credit facilities of the Federal Reserve System, any bank which might make loans to brokers who violate such requirements.

In other words, in this regard it is believed that joint action by the Federal Reserve bank of a district and the proposed Stock Exchange Authority should be required, so that the action of the agency would be cross-checked in the credit field by the principal agencies handling short-term credit; and that the Federal Reserve banks of each district should be implemented with added power, in conjunction with the proposed agency. An incidental advantage might be that the Reserve banks in each district could thus steer credit out of the stock market when desirable and toward commercial business more effectively than can now be done. As an added advantage, this brings the proposed Stock Exchange Authority into close relationship with the Federal Reserve banks, who are nearer the practical problem than a Washington agency might be, acting alone.

REGULATORY REQUIREMENTS

In the event a Federal license should be required of all exchanges as above proposed there would be attached to the license as a condition of issue and continued enjoyment the following requirement, viz.: That all exchanges desiring a Federal license must adopt and submit to the proposed Stock Exchange Authority for its approval, rules designed to comply with the regulatory requirements outlined by the proposed statute and with such rules and regulations as may be promulgated by the proposed Stock Exchange Authority thereunder. Furthermore, as a condition of retaining a license an exchange would be required to abide by and enforce such regulatory requirements and such rules and regulations. Any exchange would be permitted to adopt any other or additional rules and regulations not inconsistent with the regulatory requirements outlined by the statute or the rules and regulations promulgated by such proposed Stock Exchange Authority.

At the present time there is a wide disparity in the standard of accountability of members of exchanges to their governing boards. It might be said that there are almost as many degrees of strictness and conformity to desirable standards as there are operating exchange institutions. The same might be said of the requirements demanded of corporations listing their securities upon exchanges—the requirements of some being increasingly praiseworthy and setting the standard for the rest, although not yet completely satisfactory, while others are so lax as to provide but little protection to the public in the way of adequate and official information from listors.

It is the suggestion of this committee that the proposed Stock Exchange Authority shall be authorized by the statute to develop and establish by its rules and regulations standards for all exchanges, their members and security listors, which shall surpass those now required by any exchange in order to protect those using the facilities of exchanges from the improper practices which have been revealed or which may, at a later date, be found detrimental by the Government administrative authorities.

The suggested procedure is as follows: In order to entitle itself to a license, an exchange must submit its rules to the Stock Exchange Authority, above described. These rules must contain provisions embodying as a minimum at least the regulatory requirements suggested hereinafter and must be in a form which satisfies the Authority that they are at least as stringent as the standard set out in the statute, although they may be more so. If at any time, on complaint or otherwise, the agency is satisfied that a particular licensed exchange is not vigilantly or effectively enforcing any of the rules in question by expulsion, suspension, fine or otherwise of its members, such exchange, after a hearing, if found guilty, shall be deprived of its license, or suspended, or required to pay a heavy fine, or to change all or any of its officers or governing boards or committees.

Should the Stock Exchange Authority feel it too dangerous to compel action by an exchange through depriving it of its license, the reserve power to license brokers, as above outlined, could, if necessary, be invoked. It is hoped, however, that cooperation with exchanges would work out to a point which would make this unnecessary. Your committee is of opinion that the nonlegal, quick acting, nonreviewable disciplinary measures which an exchange can take, can never be adequately replaced by the slower moving processes of an administrative agency or the courts, and the objective should be to preserve and utilize these private mechanisms to the fullest degree possible.

Appropriate procedure for appealing to the courts from the orders of the Stock Exchange Authority must, of course, be devised. The appeal should lie directly to the United States Circuit Court of Appeals for the circuit in which the exchange is situated. The review should be limited primarily to questions of law, findings of fact of the Stock Exchange Authority being treated as final, so far as this may constitutionally be permitted. Also some procedure should be devised for enforcing through the courts the orders of the Stock Exchange Authority in a manner analogous to that by which the "cease and desist orders" of the Federal Trade Commission are enforced.

II. SUBSTANTIVE REGULATION

The considerations which have led your committee to recommend a method of stock-exchange regulation by broad discretionary authority vested in an administrative agency rather than through detailed and specific statutory prohibition and requirement of particular practices will, your committee believes, be made abundantly clear when we turn to consider the actual problems raised by the different types of exchange practices in connection with which abuses have been disclosed. So many considerations turn out to be involved in these practices, depending upon the purposes for which, and circumstances under which, they are employed, that an attempt to establish hard and fast rules would raise the possibility not only that unforeseen interference with business operations might result, but actually the consequence might be to originate new and unforeseen evils. Certain of these specific problems will now be taken up.

1. *Pools*.—Many of the abuses which have been disclosed have occurred in connection with so-called "pool operations." In attempting to propose regulations which would eliminate the evils of such operations, the difficulty is at once encountered that pools are of different kinds and are conducted for different purposes and with different results. The speculative pool, which is operated for the purpose of "rigging" the market to the detriment of the public and unduly enhancing the price of a security in order that the members of the pool may profit by selling the security at the enhanced price, or which operates to depress a security in order that the insiders may buy at the lower price and then resell at a profit, constitutes the chief evil for which a remedy is demanded. It is true, however, that certain joint accounts or syndicate operations in the market are conducted for purposes which are considered by many experts to be indispensable to accomplish certain ends which are legitimate under established methods of doing business in this country. This is the case, for example, with the so-called "distribution pool or syndicate", which, when honestly conducted, creates an orderly market for securities during the period of the distribution of a new issue.

For example, let us suppose that a corporation has to meet a maturing obligation of \$5,000,000. It decides to issue securities. It must know definitely that it will have the money before the due date. It, therefore, enters into a firm commitment to sell \$5,000,000 of new securities to underwriters at 97, who offer them at 100 to the public. Naturally, if all the securities were at once thrown back on the market by the purchasers, the price would sag. And if the quoted price sags the underwriters cannot dispose of the securities off of the exchange at 100. So the underwriters support the market by trading in the securities on the exchange until the distribution is completed. This has been criticized on the ground that the public could have bought at a lower level if the underwriters did not support the market. If the security is properly priced, however, this transaction is not properly subject to criticism, since otherwise no underwriter could distribute at the public offering price, and if he could not, he could not have afforded to enter into a firm commitment to pay to the corporation the money and the latter, if it had no underwriting and had not completed its sales of securities before

its maturity, might default. Naturally, such transactions may be perverted from their normal uses by "rigged" quotations on the exchange so that when the syndicate stops trading; that is "pulls the plug", the price sags and the public has a security which is selling several points below the public offering price. Such a sag in price, however, may in some cases be due to poor distribution of the security, i.e., it was sold to too many market traders rather than investors, so that the sales exceed the demand rather than to any intrinsic defect in the security.

The foregoing considerations, which may be advanced in justification of the so-called "distribution pool", rest, of course, on an assumption that the practice of corporations in obtaining money by selling a block of securities at a firm commitment to underwriters or wholesalers who will then redistribute to the public is a sound practice. Of course, it might be urged that the corporation could market its securities directly to the public or through brokers on a commission basis. Even, however, should it be felt desirable to enforce the substitution of the latter method of financing for the one now prevailing, substantially the same difficulty in distributing the securities without supporting the market during the period of distribution would still have to be confronted if the corporation was to be assured of a definite sum resulting from the sale. Suppose, for example, the corporation undertook directly to market an issue of 10,000 shares of \$100 per preferred stock at par. On the first day it sold 1,000 shares. Suppose some of these shares came into the possession of market traders who resold them in the market on the following day at 98. The corporation would obviously be unable to continue to sell any shares at 100 unless it went into the market with an offer to buy at 100 and thus brought the price up to that figure.

Just as arguments may thus be advanced for the so-called "distribution pool", there may be a similar argument for the operation of a syndicate to aid in the orderly liquidation of a block of securities which, if thrown upon the market without support, would demoralize the market and depress prices to the disadvantage of the investors in the securities in question. It has been said that such a syndicate is not necessary, in that such securities could be fed out slowly. This is true if there is no demand for sudden liquidation by creditors, banks, etc., or in order to settle an estate. If there is such a demand, a syndicate may perform a useful function.

The problem of the regulation of pool operations lies in the necessity of distinguishing between the legitimate and the illegitimate. There can be no question that there are certain types of pool operations which not only do not serve any legitimate function, but which are in fact a definite social menace. As has already been indicated the difficulty comes in defining a legitimate and an illegitimate pool. Similarly, the question of the proper method of dealing with illegitimate pool operations raises difficulties. If, for example, the method of publicity is chosen, there is a danger that the publicizing of the fact that a pool is operating in a security may act as a stimulant to lure speculators into the market and thus increase the very evils of excessive speculation, which it is hoped to remedy. Furthermore, many pools of an illegitimate speculative character are conducted off the regular exchanges and therefore in drafting any regulations great care must be taken to see that the regulations are

not of such a sweeping character as simply to drive pools from the exchanges, where they can be regulated, into the unorganized markets where they are largely beyond the reach of regulation.

Your committee therefore believes that careful consideration should be given by the proposed Stock Exchange Authority to the question of what type of regulation can be effectively adopted to prevent illegitimate speculative pools. It should also require, in the case of all pools or syndicates, that a copy of the syndicate or pool agreement, together with the names of the participants and the amounts of their participations, should be filed with the exchange and made available for inspection. The exchanges should furthermore be required to observe carefully the operation of all pools and syndicates so that they may be properly controlled.

The Stock Exchange Authority should give consideration to whether or not it should establish a rule that all public quotations of securities in which a syndicate or pool is operating should be marked with some appropriate symbol to designate that fact. Of course, the mere publication of quotations with such a symbol may prove of little use or may even be misleading insofar as other essential information, such as the size and scope of the pool, the extent of its operations, and its general objectives, cannot be made available to the public by means of such a marked quotation.

2. "*Wash sales*" and "*Matched orders*."—An accompaniment of speculative pool operations is the use of so-called "wash sales" and "matched orders." The effect of this method of using the exchange machinery is most distasteful to the public for it creates the semblance of legitimate activity in securities which does not in fact exist. It is a maxim with speculative pool operators that the best way to advertise a stock to gain a speculative public following is to show increasing turnover in volume of sales with increasing prices. Through the use of "wash sales" and "matched orders" such fictitious market situations are created as to warrant the absolute prohibition of this practice. That this form of manipulation should be abolished has been recognized by some exchanges since they have promulgated rules to this effect.

3. *Margin trading*.—No attempt to deal with the abuses of stock exchange operations can omit the subject of margin trading. The principal evil connected with stock exchange operations is undoubtedly, in the opinion of your committee, excessive speculation, that is to say, speculation beyond the point where it promotes and facilitates trade, but where, on the contrary, it stimulates and exaggerates the normal swing of economic tendencies. So long as excessive speculation prevails, efforts to protect the buying public who trade in securities are bound to be unavailing. The remedy must be to curtail the excessive elements. Persons who seek to profit by entering an excessively speculative market and who are not adequately equipped to protect themselves, cannot be protected from loss by governmental action.

It must always be recognized that the average man has an inherent instinct for gambling in some form or other. It has been recognized as a social evil, always inveighed against since early times. No method of combatting it has ever been completely successful. If abolished in one form it seems always to crop out in another. In America the man of average income has perhaps turned to the stock

exchange because of the prohibition of various forms of gambling. If the speculative tendencies of our people could be turned into other channels, this instinct might be satisfied without the far reaching economic consequences which come from widespread public speculation in the stock market. The real evil in this situation is that the resulting speculations affects the national economy. This evil also brings in its train the losses to investors against which so much complaint is made. If, as your committee believes, it is desirable to curb excessive speculation, one of the principal points of attack must be the restriction within sound limits of margin trading.

From the information at hand, it would seem desirable that accounts should not be carried on margin unless the customer's equity was at least a minimum amount at inception in order to prevent the risking of savings by individuals who are unable to cope with the hazards of the market. Further, margins of at least a stated percentage of the purchase price of each security purchased might be required; and the requirements might further be enforced by requiring that banks confine their loans to brokers who observe these requirements.

To some extent margin requirements may impair liquidity of securities on exchanges; but the social cost of liquidity has yet to be explored, and should be explored by the proposed Stock Exchange Authority. Further, liquidity as affected by margin requirements, changes in importance from time to time, and it seems hardly desirable to freeze requirements in the provisions of a statute. Powers, accordingly, should be given to the Stock Exchange Authority to devise rules and regulations on this subject from time to time after appropriate studies. If it be said that such powers are too broad for a governmental agency to have, we may merely point out that such powers are possessed now by the purely private boards of governors of the various exchanges, and indeed, that substantially similar requirements could be imposed (did they desire to do so) by the clearing-house banks of the financial centers. Provided that the Stock Exchange Authority acts in conjunction with the Federal Reserve bank of the district, it would seem certain that any regulation imposed would be informed by experienced judgment, having in mind the significance of the decision both with respect to securities and security levels, and with respect to short-term credit and the banking situation.

4. *Specialists.*—Your committee has considered the functions of the specialist as known on the modern stock exchange. The specialist apparently performs a useful and necessary service in the functioning of the security marketing activity of the exchanges in executing other than market orders. There have, however, been revealed abuses by such specialists of their highly confidential position, such as revealing the position of their book to the detriment of their principals; buying or selling for their own account when more advantageous prices might have been obtained for or from others; and participation in pools operating to "rig" the market in a particular security.

In view of such abuses, it seems necessary to empower the proposed Stock Exchange Authority to deal with a number of problems relating to the specialist by appropriate rules and regulations. Among these are—

(1) His power to trade for his own account, and if so, on what terms;

(2) Whether the information in his confidential book shall ever be disclosed, and if so on what terms;

(3) Whether the activities of a specialist might not be entrusted to a clerk of the exchange whose activities should be confined purely to executing orders.

As to these, your committee does not feel that it has adequate evidence to suggest specific legislation; but feels that they are proper subjects for rules and regulations by the proposed Stock Exchange Authority.

On the other hand, there are certain practices by specialists which it seems clear should be prohibited. Your committee, therefore, suggests that among the rules and regulations to be promulgated by the Stock Exchange Authority should be a rule forbidding any specialist, or any firm of which a specialist is a member, to participate directly or indirectly in any pool, joint account, or syndicate, trading in a security in which he is a specialist; and also a rule requiring that a specialist, whenever stating a bid or offered price, shall indicate whether it is his own or another's order.

5. *Short selling.*—One of the things most criticized in connection with stock market operations is the practice of short selling, and many people have advocated that it should be abolished.

No satisfactory studies are available on the results of short selling, as to whether it accelerates the decline or whether "short covering" acts as a stabilizing influence on the downside of the market. It seems clear that odd-lot operators could not continue to function apart from short selling. Whether the abuses of the practice outweigh its merits is still a matter of opinion. Your committee, therefore, recommends that no curb be placed on short selling as such, but that the Stock Exchange Authority be given power to require exchanges by appropriate rules and regulations to prevent abuses of short selling of such a character as to demoralize the market. Furthermore, the Stock Exchange Authority should have power in times of grave temporary emergency, acting in conjunction with the Governor of the Federal Reserve Board, to suspend short selling on any exchange or exchanges for a limited period. The Stock Exchange Authority should also require that each exchange shall collect and publish with as great promptness as possible at regular intervals statistics with respect to short selling, including, if possible, short sales made and covered on the same day, in order that the effect of short selling from time to time may be observed and studied.

6. *Corporate accounting and practices.*—Your committee believes that each licensed stock exchange should be required to adopt listing requirements for the various classes of issues listed on the exchange which will give to the public full, complete, and pertinent information with respect to such securities, both at the time the securities are admitted to trading and periodically thereafter. As a minimum it believes that balance sheets and income accounts on both a corporate and consolidated basis should be required at the time of listing certified by independent certified public accountants and that furthermore, each corporation whose securities are listed should be required, subject to appropriate rules and regulations of each exchange approved by the Stock Exchange Authority, to observe the following:

(a) To have its accounts examined annually by independent certified public accountants, wherever feasible, and to file copies of such balance sheets and income accounts with the stock exchange and to transmit copies thereof to its known security holders. Except that corporations, whose accounts are subject to control by the Interstate Commerce Commission, may, in lieu of certification by an accountant, state that the accounts filed and transmitted are the same as those which have been filed with the Interstate Commerce Commission and are in conformity with its rules. And except that banks, whose accounts are subject to control by the Comptroller of the Currency or the Federal Reserve Board, may include in lieu of certification by an accountant a statement that such accounts are the same as those which have been filed with the Comptroller of the Currency or the Federal Reserve Board, as the case may be.

(b) To file with the stock exchange and to release for publication at quarterly intervals, unless the exchange, subject to rules and regulations of the Stock Exchange Authority, shall permit longer intervals, statements of its condition and income for the preceding quarter, and in the case of corporations subject to regulations by the Interstate Commerce Commission such statements shall be the same as those filed with the Interstate Commerce Commission, or in conformity with statements so filed.

(c) To notify the stock exchange and release for publication any purchase or acquisition of its own securities and that it will not reissue such securities without due notice to the stock exchange.

(d) Not to participate in, or finance directly or indirectly, any pool organized for the purpose of trading in its own securities, except in connection with the original distribution of such securities, in which event full publicity shall be required.

(e) To require each director and officer, under penalty of not being eligible for reelection, not to reveal, knowingly, to any pool (except a pool organized in connection with an original distribution of the company's own securities) any information not available to the public without at the same time releasing such information to the public.

(f) To require every director and officer, under penalty of not being eligible for reelection, not to participate directly or indirectly in any pool designed to "rig" the market or to artificially raise or lower the price of such securities, with a view to selling at such artificially enhanced prices or buying at such artificially depressed prices for personal profit.

(g) To require each director or officer to file with the secretary of the corporation within 15 days after the close of each quarterly period a statement of his transactions in the securities of the company, which statements shall be open to inspection by any security holder.

(h) To report to the stock exchange within 48 hours after the granting thereof of any option given upon its stock, together with a copy of such option, which shall be open to inspection by the public and not to permit any stock to be taken down under such option until 24 hours after it has been filed with the stock exchange.

(i) To report to the stock exchange within 48 hours of the granting thereof or within the same time after it has acquired knowledge thereof, any agreement to which it is a party or of which it has

knowledge which has been entered into for the purpose of "pegging" the price of any of its securities or which has been entered into for the purpose of artificially raising or lowering the market prices of its securities.

(j) To abide by such other rules as the stock exchange may promulgate from time to time in connection with the listing of securities, preparation, and publication of corporate accounts, etc.

Failure to observe any such requirement shall permit the exchange to strike from the list. It is considered fundamental that disciplinary power over the members and over security issues shall be left primarily to each exchange, each exchange to be responsible to the Stock Exchange Authority for the enforcement of its regulations. If this is not done the morale of the exchange may be destroyed and the Stock Exchange Authority overwhelmed with the policing of the alleged violations on all of the exchanges of the country.

7. *Publicity, customers' men, etc.*—Inasmuch as your committee believes that the main evil to be corrected is excessive speculation and the resultant unsound price levels and the menace to our economic life resulting therefrom, it believes that adequate provision should be made by each exchange for the control of all publicity, advertising, market letters, soliciting of accounts, and other promotional activities by the members of each exchange. Inasmuch as a large number of institutions which are nonmembers of the exchanges also avail themselves of the ticker or quotation service of the exchanges, it seems also desirable to require that each exchange include in its contract for the furnishing of such ticker or quotation service that the recipient thereof agree to be bound by such appropriate rules as to margin accounts, publicity, customers' men, soliciting of business, peddling of securities, etc., as such exchange may deem desirable subject to the supervision and approval of the Stock Exchange Authority and that violation of such rules will give to each exchange the right to cancel such ticker or quotation service.

The activities of customers' men in recommending the purchase or sale of certain securities with the idea of increasing the commissions of the firm by which they are employed without regard to the welfare of the customer, has received a considerable amount of deserved criticism. Your committee would recommend that the proposed Stock Exchange Authority require rules by all exchanges which will govern the activities of customers' men. Certainly the following should be included among such rules:

(a) All customers' men to be employed for fixed terms on fixed salaries and that any compensation paid them on the basis of business originated by them be absolutely prohibited.

(b) No customer's man to be permitted to participate in a pool or to recommend to any customer the purchase or sale of any securities on which he or his firm holds an option without full disclosure of such facts.

(c) No customer's man to be permitted to recommend the purchase or sale of any security in which he or the firm for which he is employed has an interest, without stating that fact to the customer.

8. *Segregation of brokerage and other forms of business.*—Your committee has given careful consideration to various proposals that the business of underwriting and retailing securities should be completely divorced; that those who underwrite securities and who are

members of a stock exchange should not be permitted to carry margin accounts for customers; and that those engaged in the retailing of securities should not be permitted to be members of any stock exchange.

The various activities in which the members of the stock exchange engage, such as underwriting, acting as broker, carrying margins, etc. are all closely intertwined in our financial structure. Any such proposed segregation should not be accomplished before we are in a position to calculate its cost and to foresee its repercussions. As an abstract matter, the segregation of these various activities has much to commend it. Such an important decision as this can hardly be left to the discretion of an administrative authority. Segregation, if it is to be accomplished, must be accomplished by legislative fiat. Your committee finds that there is not yet available sufficient information to enable it to recommend such a far-reaching decision. It recommends, therefore, that the Stock Exchange Authority be charged with the task of assembling information to permit such a decision to be made intelligently and with assurance by a later Congress.

9. *Examination of books and requirement of periodical reports by members.*—Each exchange, as a condition of being licensed, should be required to make proper provision in its rules for the right of an exchange to have access at all times to the books of the firms trading upon such exchange, and should also include in its rules a requirement for periodical reports to the exchange by firms trading upon it as to their financial position, as well as necessary information concerning their transactions on the exchange. For the purpose of collecting the necessary information for the formulation of a proper regulatory policy, as well as for enforcement purposes, it should also be provided by the statute that, as a condition of being licensed, an exchange must include in its rules a provision giving to the proposed Federal Stock Exchange Authority a right, in the event it cannot obtain information through the exchange, to require such information directly from the individual brokers, with the reserved right to examine their books for such purpose.

10. *Unorganized or "over-the-counter" markets.*—No study of regulation of organized stock exchanges would be complete without giving consideration to the problem of the unorganized or "over-the-counter" markets. Because of their importance, and because of the fact that certain transactions and practices could still be engaged in on the "over-the-counter" markets which, under the proposed regulation, would be prohibited on the organized exchanges, your committee has considered whether and to what extent it would be possible to regulate such "over-the-counter" markets. On the basis of the consideration which it has been able to give to this subject, your committee has come to the conclusion that the problem of the "over-the-counter" markets cannot be satisfactorily dealt with by Federal governmental action. It has not yet found any method of controlling such markets which it considers feasible or which could be applied without building up a Federal policing agency on such a scale as to be impracticable. It is, therefore, not prepared to recommend any Federal legislation for the regulation of such markets, but, if a further study on this subject should be considered desirable, your committee will undertake to proceed therewith.

CONCLUSION

This report represents the composite views of the several members of the committee, the individual members having endeavored to subordinate their personal viewpoints in order to arrive at unanimity. While some of the members have certain reservations on some of the points discussed, all the members unite in the recommendations herein contained and are in general accord with the views herein expressed.

Respectfully submitted.

JOHN DICKINSON, *Chairman*.

A. A. BERLE.

Per JOHN DICKINSON (see below).

ARTHUR H. DEAN,

J. M. LANDIS,

HENRY J. RICHARDSON.

The changes in the foregoing report made after it had been read by Mr. Berle were read over the telephone to him and approved by him and he authorized me by telegraph to append his signature, as follows:

Hon. JOHN DICKINSON,
*Assistant Secretary of Commerce,
Department of Commerce:*

Referring to text to proposed report recommending legislation regulating stock exchanges, kindly affix my signature. I will sign original when in Washington next week.

Regards,

A. A. BERLE, Jr.

NEW YORK, N.Y.

JANUARY 23, 1934.

Memorandum to Secretary Roper.

From: The Committee on Stock Exchange Regulation.

Subject: Report No. II. Regulation of Commodity Exchanges.

Your committee has been requested to look into the question of regulation of commodity exchanges. As this is a question which primarily concerns and is at the present time under the supervision of the Department of Agriculture, your committee made contact with Secretary Wallace, who suggested that the committee meet with Dr. J. W. T. Duvel, Chief of the Grain Futures Administration, and Dr. Nils A. Olsen, Chief of the Bureau of Agricultural Economics.

Your committee finds that both Dr. Duvel and Dr. Olsen have prepared and are ready to submit bills amending and extending the existing legislation with regard to commodity exchanges.

The bill submitted by Dr. Duvel has two principal objects. First, to extend the present Grain Futures Act and make it the vehicle for the control of all commodity exchanges. While the bill proposes to add only one commodity (cotton) to the seven commodities (wheat, corn, oats, rye, barley, flax, and grain sorghum) now covered by the act, it is so written as to apply to any other commodity which may be brought within its terms by subsequent legislation. The second object of the bill is to strengthen the provisions of the present act. The bill proposes to place under Federal license all commission merchants who operate on the exchanges and handle orders for customers.

Dr. Nils A. Olsen, Chief of the Bureau of Agricultural Economics, which is at present in charge of the administration of the Cotton Futures Act, submits a bill designed to strengthen that act and dealing exclusively with cotton. Dr. Olsen also presents a bill dealing with other agricultural commodities, except cotton and grain. Dr. Olsen's arguments in favor of separate bills covering cotton and other agricultural commodities are:

1. Separate bills would divide the opposition which the legislation attempts at regulation of trading in commodity futures will encounter; and,

2. The character of the various exchanges and the services which they render differ considerably with different commodities.

Dr. Olsen proposes a scheme of regulation which requires Federal licensing for both the exchanges and their members.

The Olsen bill would preserve the independence of the present agency administering the Cotton Futures Act and also the independence of the other and different agency administering the Grain Futures Act. Dr. Duvel's bill, by bringing cotton within the scope of the Grain Futures Act, would make the existing Cotton Futures Act unnecessary.

Your committee has reached the following conclusions:

1. That before either or both of the proposals submitted by Dr. Olsen and Dr. Duvel, respectively, are introduced in Congress, they should be harmonized so that two inconsistent proposals will not be placed before Congress at the same time.

2. That the problems of stock-market regulation and the regulation of commodity exchanges, while both involving many of the same abstract issues, are, nevertheless, essentially different both as to the concrete problems with which they deal and as to the groups and classes of persons whom they primarily affect, and, therefore, that any attempt to include regulation of commodity exchanges with regulation of stock exchanges in the same legislation or under the same administrative supervision would not be regarded by your committee as desirable.

3. Your committee recommends that the problem of working out a harmonious solution between the proposals of Dr. Olsen and Dr. Duvel, being primarily a matter of agricultural concern, would be most effectively left to the Department of Agriculture.

Respectfully submitted.

JOHN DICKINSON, *Chairman*.
A. A. BERLE, Jr.
ARTHUR H. DEAN.
J. M. LANDIS.
HENRY J. RICHARDSON.



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