

July 13, 1938.

The Honorable William G. McAdoo,
United States Senator,
250 Las Alturas Road,
Santa Barbara, California.

My dear Senator McAdoo:

I have the letter of your secretary of July 7, 1938 requesting a summary of the activities of the Securities and Exchange Commission in California since its establishment, with particular reference to the work of the San Francisco Regional Office.

I have forwarded a copy of your letter to Mr. Howard A. Judy, Regional Administrator in San Francisco, together with a copy of this letter so that he may forward to you additional statistical and other information to supplement the material contained herein. In this connection I wish to state that the Fourth Annual Report of the Securities and Exchange Commission is now being compiled and consequently, prior to the completion of our report, I am asking the San Francisco Office to forward you additional information.

I am enclosing herewith copies of the First, Second and Third Annual Reports of the Securities and Exchange Commission which cover the period from the formation of the Commission until June 30, 1937. I also enclose an official pamphlet entitled "The Work of the Securities and Exchange Commission" which succinctly states the principal functions of the Commission and other data. This pamphlet is dated March 1, 1938. I also enclose a copy of my address entitled "A Program for Government and Business" delivered June 22, 1938 before the Foundation for the Advancement of the Social Sciences at Denver, Colorado; a copy of the address of Commissioner John W. Hanes before the Harvard Business School Alumni Association delivered June 17, 1938, and a copy of the address of Commissioner John W. Hanes before the Central States Group of the Investment Bankers Association of America at Chicago on March 17, 1938. These addresses, in a general way, indicate the aims and purposes of the Commission in furtherance of the powers granted it.

The Securities and Exchange Commission has administrative duties in connection with four acts passed by Congress. These acts are the Securities Act of 1933, as amended, which, generally speaking, regulates the issuance and sale in interstate commerce and by means of the mails of new distributions of securities or redistributions by an issuing corporation or their controlling persons; the Securities Exchange Act of 1934, as amended, which, generally speaking, regulates trading in securities on exchanges and in the over-the-counter markets and matters relative thereto; the Public Utility Holding Company Act of 1935, which regulates the securities practices of public utility holding companies; the Chandler bill, passed at the last session of Congress, which amends the National Bankruptcy Act to provide that in certain cases the Securities and Exchange Commission may intervene in reorganization proceedings and may prepare advisory reports to the judge handling the reorganization, with reference to the fairness of all plans of reorganization which it is proposed to submit to the security holders under the reorganization provisions of the Bankruptcy Act.

The territory embraced by the San Francisco Regional Office includes the states of California, Arizona, and Nevada, and the Hawaiian Islands. In this region the San Francisco office performs those functions of the Commission which can best be performed through a regional agency. The San Francisco Office is headed by Mr. Howard A. Judy, Regional Administrator, and under him are four attorneys, one assistant chief accountant investigator, five accountant investigators, one oil royalty and lease expert, in addition to the clerical and stenographic help.

This office makes investigations of offerings of securities under the Securities Act of 1933, as amended, with special reference to determining whether the offering has complied with the registration and disclosure requirements of Section 5 of the Securities Act of 1933, as amended, and with the anti-fraud provisions of Section 17 of the Act. This office also makes investigations to determine whether there has been any violation of the laws prohibiting manipulation and other improper trading practices on exchanges, makes inspections of margin accounts of brokers to see that the minimum margin regulations have not been violated, and makes other investigations concerning the propriety of listing or delisting of securities from exchanges.

The San Francisco Office has a branch office in Los Angeles from which a considerable amount of this investigative work is conducted.

In addition to its investigative work, the San Francisco Office also renders advisory service to all persons seeking information concerning the application of the various acts administered by this Commission. In view of the narrowness and scope of the laws administered by this Commission, the Regional Office will consider proposed transactions when the same are presented to it and will advise concerning the rules and regulations of the Commission which must be complied with in the particular situation. This advisory service is supplemented, when necessary, by advice from the Commission in Washington and, I believe, is one of the important services performed by the Commission in enabling the public to comply with the new standards imposed by the acts administered by this Commission.

The San Francisco Office of the Commission will, it is now planned, actively participate in corporate reorganizations under the Chandler bill in conjunction with the reorganization division of the Commission in Washington. It is believed that under this new legislation the Commission will, as champion of the investor interests in reorganization, be able to render real service to the investing public. The services of an impartial body of experts, which the Commission believes it would be able to supply to the courts in reorganization, should be a valuable aid in developing expeditious and just reorganizations in the future. You are, of course, aware that the reorganization legislation which will go into effect September 22, 1938 is the result of the investigations conducted by this Commission and of various investigations by House and Senate committees, notably the investigation made by your own committee.

The San Francisco Regional Office is also participating actively in the preliminary work with reference to the formation of national and, where desirable, affiliated organizations of broker-dealers under the recent amendment to the Securities Exchange Act of 1934 (the Maloney Act) so that self-government and the establishment of higher and better trading practices of brokers and dealers can be achieved under the supervision of this Commission.

I have, of course, touched merely the highlights of the varied program which is being carried on by the Commission throughout the country and which is being carried on in California through the San Francisco Regional Office. Our immediate objective is the protection of investors. But in a larger sense it is the function of this Commission and of the laws which it administers to protect the Nation's delicate and vital financial mechanism to which our whole economic system is geared. This financial

mechanism - the capital markets and security markets - rests squarely upon the continuing faith and confidence of the investing public. The maintenance of that faith and confidence demands that the honesty of securities, security markets and dealings in securities must be unquestioned. I feel that substantial progress toward this goal has been made in the past and that, through the aid of the legislation adopted at the last session of Congress, additional gains can be made.

If we may furnish additional information on any particular matters, please do not hesitate to get in touch with me or with Mr. Howard A. Judy, our San Francisco Regional Administrator.

Yours faithfully,

William O. Douglas,
Chairman.

Enclosures

5 Annual Reports
1 pamphlet
3 addresses

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