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IS U. S. SECURITIES INQUIRY AFFECTING INVESTORS' CONFIDENCE?

The slow-building inquiry into the securities business in the United States, the first in almost 30 years, is revealing a curiously schizophrenic character. On the one hand, the Securities and Exchange Commission seems determined to do nothing to upset investor confidence. On the other, it appears anxious to have answers ready if and when events in the market force an official explanation.

It was probably no more than coincidence that the stock market suffered its sharpest decline of the year in the same week that the first public hearings in the SEC's investigation, now six months old, got under way in Washington. Nevertheless, the events emphasized the dilemma the SEC faces: If it presses its case too strongly, it may be accused of triggering a further decline; if it fails to move far enough and fast enough, it may be charged with nonfeasance. Thus, William L. Cary, the lawyer and former professor named by President Kennedy to head the five-man body, has sought to assure the market that it has nothing to fear. There will be no sensation grabbing headlines, he has promised, no repetition of the Pecora hearings of the early 1930's when someone thrust a midget on to the lap of J. P. Morgan. The inquiry, he has said, is designed to produce light, not sound -- the facts needed to bring the securities regulations and laws up to date, particularly in view of the changes which have taken place in the post-war years.

The initial disclosures would appear to bear out this promise. A New York dealer in mutual fund (unit trust) shares told the inquiry that his company

employed 4,700 salesmen, many of whom were recruited on a "no experience needed" basis through newspaper classified advertisements. Another, employing 2,200, said his firm recruited part-time salesmen among business and professional people, school teachers, and older military officers on active duty. Many of these, he conceded, had not more than 18 hours' training before sitting for qualifying examinations of the National Association of Securities Dealers, semi-official regulatory body for the over-the-counter securities industry. These were facts generally known. In the 11 months since the SEC first announced its plans to look into the securities business, the NASD had tightened its membership requirements and stiffened considerably its qualifying examination for member firm salesmen.

To no one's particular astonishment, it was disclosed that stock exchange brokers often are given commission business, and even cash, for promoting mutual fund sales. Under New York Stock Exchange rules, a broker can "give up" 60 per cent of his commissions to other firms. And mutual funds often require that brokers surrender part of their commissions to other brokers active in selling the fund's shares. Where the broker is not a member of an exchange, he may simply receive a cash payment from the member firm that executes orders for the fund. One New York Stock Exchange member firm, it was disclosed, undertook an extensive promotional effort among newspaper, radio, and television men in an attempt to promote contractual mutual fund sales. But the campaign failed to produce the results, and the brokerage house received less than it expected in the way of reciprocal business. Richard H. Paul, chief counsel for the investigation, suggested that mutual funds might buy and sell

more shares than necessary to generate additional commission business for cooperative stock brokers. But he could obtain no agreement from the industry representatives questioned.

The inquiry is headed by Milton H. Cohen, a 50-year-old Chicago lawyer who worked for the SEC when it was new. He is under Congressional orders to report by next January, but the agency is asking for \$200,000 more than the \$750,000 originally appropriated to extend the inquiry an additional three months. So far, the inquiry has borne out the judgment of Representative Peter F. Mack, Jr., the Illinois Democrat, who sponsored the original appropriation.