

From: Distributors Group, Incorporated \* 63 Wall Street, New York, N Y

---

## COMMENTS ON THE PROPOSED FEDERAL SECURITIES ACT BY DEAN LANGMUIR

Summary of an Address Delivered at the Conference of Business Economists  
of the National Industrial Conference Board on April 20th.

---

This address by Dean Langmuir, Vice President in Charge of Research of Distributors Group, concerns a subject of vital interest to the business of every investment house. It attracted special attention because of its suggestions for additions to the Act for the protection of investors. Outstanding among these were recommendations that publicity be given corporation income tax statements and employee and officer profit-sharing compensations.

---

### Summary

The proposed securities bill is in many ways an unfortunate piece of legislation. The red tape and detail involved will require great expense, much of which will not advance the investors' interests at all. On the other hand, the bill fails to establish the type of control over corporations which would really help investors the most.

The most important innovation in the bill is that which requires the directors of each company, as well as the officers, to assume personal, undivided responsibility in connection with each security offered. In case a statement turns out to be false, even though based on an audited figure submitted by reputable public accounts, the investor can recover the full amount of the purchase price from any one of the directors.

Punitive legislation of this nature reminds one of the procedure in Soviet Russia, where railroad officials are subject to execution in case of a railroad wreck. It would be as if the President, say, of the General Electric Company were to be made personally liable in case any product manufactured by one of his Company's plants proved to be defective.

Such a provision will in the long run only be harmful. Public spirited men, heretofore willing to protect the investors' interests on boards of directors, will be unwilling to serve under such conditions. Honest mistakes must not be penalized to the extent that the chief motive of our industrial leaders becomes not that of building up enterprises, but of protecting themselves from drastic penalties inflicted by law at every step.

On the other hand, in many respects the bill fails to give the investor the minimum protection to which he is entitled. There is, for instance, no provision as to the publicity of income tax data. The Treasury Department requires detailed statements to be filed with it in order that it may determine the adequacy of the income tax payments which it receives. Stockholders have far

greater amounts due to them from corporations than the Treasury Department, and the income tax data filed with the Treasury Department should be made available to stockholders.

There is no requirement that profit-sharing arrangements and officers' compensations shall be disciplined. The Treasury Department annual reports show that the compensation of officers of all American corporations has constituted at least one-third of the net income of American corporations in each and every year of the last decade. This amount represents a return of almost 3% per annum on the entire capital invested in these corporations.

Accordingly, the issue of how corporate profits shall be divided between officers and stockholders is a vital one, but the securities bill offers no help to the investor in this respect.

Perhaps the most important weakness in the bill is that aid to the investor is confined almost exclusively to supplying data concerning the soundness of investments only at the time of original issue. As a matter of fact, the greatest losses suffered by investors are due to elements of weakness which develop after the time of purchase. Investors are protected in this regard only by publication of adequate periodic financial reports, but the proposed bill contains no requirement for the submission by corporations of any periodic financial reports, once the securities have been purchased. One of the most important tasks of constructive legislation ought to be to insure the quarterly publication of full and frank statements of assets and liabilities and of profits and losses, duly audited by independent public accountants.

The only provision in the bill designed to protect the investor after the time of purchase is that which confers authority on the Federal Trade Commission to prevent the future sale of securities of companies which have been found upon examination to be in any way "dishonest". It is not dishonesty from which investors in American corporations have suffered so much, as a lack of information as to just what goes on, that they may unwisely hold onto securities whose value is diminishing. For the Commission to revoke the power to sell a security after dishonesty has occurred is to lock the barn door after the horse is stolen.

Another curious deficiency of this bill is that state and municipal governments are exempted from the necessity of submitting detailed financial information to the investor in connection with the sale of their obligations to the public. If the investor must be supplied with every last detail relating to corporation securities, why should he not be furnished at least some statement as to whether the budget is balanced and as to the amount of taxes in arrears. The investor needs such protection.

The proposed securities bill is being rushed through Congress, and it bears evidence of hasty legislation. There is no excuse for haste, since this bill relates only to the sale of new securities, and these days few new security issues are offered. Our legislators at Washington should consider English procedure. Before revisions were made to the English Companies' Act in 1926, the Board of Trade appointed a commission of twelve outstanding men which held thirty-eight meetings, examining dozens of witnesses before finally recommending the changes to be made. In initiating new legislation of an entirely novel type, still greater care should be exercised before taking final action.

The central idea of the proposed bill of giving wide publicity to all data related to new security issues is sound, and it is also desirable to increase the obligations of directors to the corporations they serve. Unfortunately, starting with this sound basis, the bill has been made so drastic as to largely destroy its usefulness, and so cumbersome as to slow down the security business to the extent that legitimate financing will be seriously hindered. The greatest opportunities to serve the investor have been overlooked.