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PHILADELPHIA

August 20, 1942

The Honorable
Alfred F. Beiter
House of Representatives
Washington, D. C.

My dear Mr. Beiter:

This has further reference to your letter of August 11, 1942 to Chairman Purcell enclosing a copy of a letter sent to Mr. Wallace H. Fulton by Mr. Samuel D. Lunt. That letter contained various comments on proposed Rule X-15C1-10, a copy of which was supplied to you by Chairman Purcell.

The proposed rule was drafted in this Division as a result of studies which have been made of the over-the-counter market since the formation of the Commission. This Division has become increasingly aware of a practice which is growing in the over-the-counter market for dealers to buy from or sell to their customers at prices bearing no reasonable relationship to the prevailing market prices. This practice is indulged by many over-the-counter dealers, not only in connection with the purchase and sale of securities which are traded exclusively in the over-the-counter market, but also in connection with transactions in securities which are listed on national securities exchanges. As a result of the discovery of this practice, the Commission in the past two years has instituted many proceedings against dealers for the purpose of revoking their registrations and thus denying them the right to engage in the securities business by the use of the facilities of interstate commerce and the mails. But this Division strongly feels that adequate protection to the public in matters of this kind requires the adoption of appropriate regulations which will make available to customers current information about market prices, or some other equivalent type of information, to enable them to make an informed and intelligent judgment in each transaction of purchase and sale.

Thus, the only purpose of the proposed rule is to make information available to customers which will prevent the purchase and sale of securities by dealers at prices bearing no reasonable relationship to current market prices. This is information which is customarily required by informed investors before they enter into transactions

The Honorable Alfred F. Baiter

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of this nature. You will note that the proposed rule does not require the disclosure of profits. It merely requires, as stated earlier, disclosure of current market prices.

I wish to advise you further that this Division mailed the proposed rule to representatives of the securities industry on July 29, 1942 to obtain constructive suggestions which would aid in the drafting of a rule designed to eradicate the evil mentioned above with the least possible interference to legitimate over-the-counter transactions. The rule is still in the discussion stage and in an effort to obtain the views of all interested persons, the time for filing comments on the rule has been extended to September 15, 1942. Needless to say, all comments which are made will be given very serious consideration. Moreover, should counter proposals be received which would appear to accomplish the purpose sought in a more desirable manner, a redraft of the rule will undoubtedly be sent to members of the securities industry for further comment and consideration. In no event will any rule of this nature be presented to the Commission for adoption without giving all interested persons an opportunity to be heard.

I wish to thank you for letting me have the opportunity of seeing Mr. Lunt's comments.

Very truly yours,

James A. Treanor, Jr.
Director

 J. A. Treanor, Jr.

