

June 5, 1962

Mr. Timothy J. Reardon, Jr.
Special Assistant to the President
The White House
Washington, D. C.

Dear Mr. Reardon:

I am enclosing, for the information of the President, a report on the more important developments during May in the Commission's administration of the Federal securities law.

Sincerely yours,

William L. Cary
Chairman

Enclosure

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C.

June 5, 1962

MEMORANDUM TO: The President

The severe market break through May 28th gave rise to considerable speculation in the press and elsewhere as to the cause of the break. One newspaper on May 31st carried a report, attributed to unnamed officials of the Commission, that the Commission had ordered an investigation "to explore its suspicions that stock market 'professionals' set the stage for the dramatic drop in stock prices Monday - and profited from it at the expense of the investing public." The Commission immediately announced that there was no authorization for any such statements or conclusions, and on the facts available there was no basis for them or for such "suspicions." Nor had the Commission ordered such an "investigation." However, as stated in response to a question at a hearing on May 29th before the House Interstate and Foreign Commerce Committee on an unrelated matter, we are conducting a fact-finding inquiry to ascertain who or what groups bought and sold securities during the period in question, and other pertinent information.

* * *

On May 9th, Congressman Peter Mack of Illinois, author of the original resolution creating the Commission's Special Study of Securities Markets, introduced H.R. 11670 to extend the termination date of the Special Study from January 3 to April 3, 1963, and to authorize an additional \$200,000 to finance this extension. The Commission strongly supported the proposed extension in testimony on May 14 before a subcommittee of the House Committee on Interstate and Foreign Commerce. A great deal of ground has been covered in the approximately seven months that the study has been in progress, but it has become increasingly clear that additional time and money will be needed to do a proper job within the areas now scheduled for study. The extension will provide a total period of approximately seventeen months from the time the staff was operating, and will authorize a total expenditure of \$950,000, for a much needed and important study of the securities markets.

* * *

On May 22d, a Subcommittee of the House Committee on Interstate and Foreign Commerce held public hearings on the need for securities regulation in the District of Columbia, which has no local securities law. The Commission urged that additional regulation of the "Blue Sky" type was needed for the protection of the investing public in the District, since the federal securities laws were not designed as a substitute for local regulation and because the

Commission could not devote to the District an effort sufficient to fill this gap without impairing its ability to discharge its national responsibilities. Among the possible alternative courses of action to meet the problem in the District, the Commission expressed a preference for a strong Blue Sky Law administered under the District of Columbia Government by an adequate enforcement organization.

William L. Cary
Chairman