

January 12, 1944

Mr. Wallace H. Fulton
Executive Director
National Association of Securities Dealers, Inc.
1616 Walnut Street
Philadelphia, Pennsylvania

Dear Wally:

I enclose copy of a letter addressed to the Commission for your consideration in connection with the Attorney General's intervention in the PSI cases. Both Joe Hostetler and Ray Jackson have worked on the letter, and they asked me to send it on to you. If you approve it would you or Jim Conway take it over to the Commission tomorrow and file it?

I am also enclosing a rough draft of the statement of our objections which we will want to modify and change considerably before we file it; but we would like to have the benefit of your suggestions before doing so.

In substance the position is that the Maloney Act gives the Association the right to make rules and to enforce them by disciplinary action. The Association rules, approved by the Commission, become the contractual obligation of its members and the disciplinary action was taken for failure to adhere to that contractual obligation. The Association rules and the Maloney Act provide for a review by the Commission. There is, however, no provision for intervention by any party, and by reason of the nature of the organization under the Maloney Act, the Commission's general rules of practice are inapplicable to such a review proceeding. If a member has violated his contractual obligations with the Association it is a matter of internal concern in the Association and not a matter in which the Department of Justice or any other agency has any concern. Indeed, the concern of the SEC on the review is only whether as a matter of fact the member committed the acts for which it was disciplined, and whether such acts violate the Association rules.

It was, of course, never contemplated when the Maloney Act was adopted and the Association organized that the Department of Justice, the FBI, or any other agency, would have the right to sit in on the proceedings of the Association or examine the records of the Association and prosecute criminally for matters which those proceedings or records disclosed. If they do have that right, it amounts to the members of the Association contributing funds to create "an

arena” where they can be criminally prosecuted. This is the aspect which should be of the greatest concern to the Association.

Cordially yours,

Stephen C. Thayer

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