

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C.

February 6, 1962

MEMORANDUM TO: The President

Certain events occurring prior and subsequent to the publication of the January 6th Staff Report on the investigation of the American Stock Exchange, which contained a critical analysis of the organization, management and regulation of the conduct of members of that Exchange, may be of interest.

The investigation was authorized by the Commission soon after it had ordered the expulsion of the Re firm from membership in the American Stock Exchange. Thereafter, and following discussions between our Staff and interested members of the Exchange, the Exchange formed a Special Committee known as the Levy Committee to study the organization of the Exchange and make recommendations where necessary. Subsequently, in December 1961, the Exchange's President and General Counsel resigned; and later that month the Levy Committee issued a report on the organization and administration of the Exchange which contained proposals for constitutional and administrative changes. In view of the January 8, 1962 deadline for the nomination of candidates for election to the Exchange's Board of Governors, scheduled for February 12th, the Commission directed that the Staff Report be made public on January 6th.

The Staff Report, among other things, concerns itself with an apparent breakdown in the statutory scheme of "self-regulation" as applied to the operation and management of the American Stock Exchange, including particularly the ineffectiveness of the Exchange's disciplinary procedures and the failure of the Exchange to properly regulate its members. Subsequent events, attributable in large part to the Staff Report and the urgings both of the Commission and of the Levy Committee, include the following:

- (1) Four predominant figures in the Exchange's government have resigned from its Board of Governors and a new President pro tam has been selected;
- (2) The Exchange has suspended the specialist registration of the principal partners of one of its member firms against which the Staff Report directed special criticism;
- (3) The slate of nominees for election to the Board of Governors of the Exchange this month has been substantially changed;
- (4) In addition to a new General Counsel, the Exchange has appointed new Special Counsel to consider what disciplinary actions should immediately be taken; and

(5) The Levy Committee has proposed a tightening of the Exchange's listing and delisting requirements.

The Commission has pressed and will continue to press for prompt and vigorous action by the Exchange to reconstitute itself as an orderly, disciplined market with unquestioned integrity.

Considerable progress is being made in pursuing other phases of the Special Study of Securities Markets. From time to time the Commission expects to make announcements with respect to various aspects of the study, including one later this month concerning a study of New York Stock Exchange specialists.

William L. Cary
Chairman