

MEMORANDUM

July 22, 1963

TO: The Chairman

FROM: Ralph S. Saul, Associate Director
Special Study of Securities Markets

SUBJECT: Organization of the Division of Trading and Exchanges

I have a number of tentative thoughts about the organization of the Division which may be helpful in providing a basis for discussion:

Assumptions

The organization plan described below is based on these assumptions:

1. As a result of the Special Study, much more emphasis will be given to regulatory activities. The present Division is not adequately staffed or organized to deal with the overwhelming number of regulatory and "oversight" problems which will be presented during the next few years.
2. Most of the immediate regulatory problems of the Division will involve implementation of the recommendations of the Special Study Report. I would assume that initially the primary activities of a regulatory unit in the Division would be participation in conferences with the self-regulatory agencies and industry groups, drafting of proposals and the conduct of hearings or formal public conferences on rule changes.
3. Once the Commission has established a scheme of priorities and basic policies to govern implementation of the Special Study recommendations, authority will be delegated to staff officials (below the division or office head^o level) to confer and negotiate with officials of equivalent rank in the self-regulatory agencies. Discussions will take place at higher levels as proposals are agreed upon or as disagreements develop. [I do not think that implementation can be effected in an orderly and efficient manner without delegation. Delegation is important for another reason: to give personnel in the Division a sense of responsibility and a recognition of that responsibility by the industry groups with whom they deal.]

4. It is important to establish a regulatory unit with a reputation for competence and dedication that will have the respect of the industry and will be able to carry on the task of "oversight" long after the present Commission and the incoming Director have gone.

Proposed Organization

1. I would recommend no substantial changes in the organization of enforcement activities of the Division. Mr. Pollack has done a splendid job in organizing the Division in this area. However, in shifting the emphasis of the Division's activities to regulation and oversight it may be necessary to shift some personnel out of enforcement into regulation.

2. The Chief Counsel's office will need to be enlarged as a result of the shift in emphasis to regulation. Bob Block is overburdened and he will need the assistance of some of the most experienced attorneys from the Special Study.

3. I would propose considerable enlargement of the functions of Vito Natrella's Branch of Economic Research. I would envisage that a reorganized branch would make the special studies and provide the research and statistical materials required for adequate exercise of a regulatory role by the Commission. We should attempt to build a research unit that would acquire the reputation for competence similar to that of the research staff of the Federal Reserve Board. I would contemplate assigning to Vito most of the research people who are now staffing the Special Study. I would hope that over the next year or two that we could slough off some of the general statistical projects in which Vito is now engaged by giving them to other agencies (who will be happy to have them) and replace these projects with projects relating to the immediate needs of the Commission: namely market studies and market statistics.

4. For regulatory responsibilities I would propose creating either one branch of regulation or splitting the regulatory function into two branches--one for exchange regulation and another for over-the-counter regulation. The regulatory branches would not be large but I believe that they should be headed by lawyers from the Special Study and principally staffed with lawyers. If either of these regulatory branches need research or statistical assistance they will be able to use the branch of research.

Other Factors

I think that decisions as to the organization of the Division should be made as soon as possible primarily so that valuable personnel in the Special Study will know what their responsibilities will be and in order to forestall their drifting off to other pursuits. Another important factor is informing the industry with whom they must deal. In my view the organization of the Division is a matter of the highest priority.

As you know, I plan to go on vacation on August 1 and if it is convenient I would like to discuss the above proposals with you and the Commission before that date.

NARA-CP

RG 266 UD-WW Entry 176

Chairman Files

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