SECURITIES AND EXCHANGE COMMISSION

NEWS DIGEST

A brief summary of financial proposals filed with and actions by the S.E.C.

Washington 25, D.C.

FOR RELEASE November 6, 1956

Chairman J. Sinclair Armstrong of the Securities and Exchange Commission today made public an interchange of correspondence between the Commission and the Administrator of the Small Business Administration, with respect to the Commission's proposals for the further revision of its exemptive regulation (Regulation A under the Securities Act of 1933) for new issues of corporate securities to be sold to the public in interstate commerce in amounts not exceeding $300,000. The Commission's proposed amendments to Regulation A were released for public comment on July 23, 1956 in Securities Act Release 3664. The time for submitting written comments upon the proposed amendments has been extended by the Commission to December 5, 1956.

The proposed amendments would have the effect of making the exemption provided by Regulation A available only to issues and offerings meeting specified standards based either upon the record of net earnings on the part of the issuer or upon a limitation of the number of securities which might be issued pursuant to the exemption.

The correspondence follows:

The Honorable J. Sinclair Armstrong
Chairman
Securities and Exchange Commission
Washington 25, D. C.

Dear Mr. Armstrong:

Your Executive Assistant, Mr. Frank G. Uriell, has called to our attention Securities Act Release No. 3664, announcing proposed further amendments of Regulation A. We would like to avail ourselves of the opportunity to comment on these amendments.

As we have stated to you on previous occasions, the Small Business Administration is extremely anxious that all legitimate small businesses in manufacturing, retail, wholesale and service trades have free access to public financing. Our primary concern, therefore, is to retain for these business concerns the advantages and benefits of equity financing made available to them under Regulation A.

With the foregoing objective in mind, we cannot concur with any proposal which limits Regulation A financing to companies which can demonstrate at least one year of profitable operation.

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Our experience has indicated that in many instances sound and profitable small businesses have developed after suffering initial losses over a period of several years. Indeed, the availability of sufficient equity capital is, as you know, one of the vital factors which may determine whether a new but fundamentally sound business venture can succeed. Loss in the first years of organization is a common occurrence which readily may be anticipated in the organization of a new concern. This common experience alone must not be made a disqualification which will preclude utilization of Regulation A financing.

We are more favorably inclined, should the Commission find this procedure necessary for the protection of investors, to the proposal submitted in Release No. 3664 which would limit the aggregate number of securities which can be issued under Regulation A. If the Securities and Exchange Commission believes that a substantial benefit will accrue to the investor by limiting the sale of "penny stocks," we then suggest that consideration be given to a 300,000 rather than a 100,000 unit limitation. As far as we are able to ascertain, the greater part of new financing for sound small business has been at a price in excess of $3 per share. Nevertheless, there is some financing done at less than $3 a share although rarely at a price below $1 a share.

Release No. 3664 proposes four alternative amendments to Regulation A. On the basis of our comments noted above, it is our opinion that the fourth alternative, particularly if the number of permissible units is increased to 300,000, would embody the fewest disadvantages to legitimate small companies and still provide protection, if necessary, for the investing public.

Sincerely yours,

/s/Wendell B. Barnes
Administrator

Honorable Wendell B. Barnes
Administrator
Small Business Administration
Washington 25, D. C.

Dear Mr. Barnes:

On behalf of the Securities and Exchange Commission, I am writing to acknowledge and express our appreciation for the very careful comments which you give in your letter of October 23, 1956, on our proposals which are presently promulgated for public comment for the further revision of our exemptive regulation for new issues of corporate securities to be sold in interstate commerce to the public not exceeding $300,000 in amount.

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We are most sensitive to the position of the Small Business Administration that all legitimate small businesses in manufacturing, retail, wholesale, and service trades have free access to public financing and that the advantages and benefits of equity financing made available for these business concerns under our exemptive regulation be retained.

We of the Securities and Exchange Commission have a longstanding recognition of the great importance to small business of access to the capital markets, particularly for equity money, not burdened by unnecessary Government restrictions, but under reasonable rules providing for protection of the investing public as contemplated by the Federal Securities Act.

As you know, our exemptive regulation as revised in July, 1956, does not limit the availability of the exemption by industry groups. Also, none of the proposed further revisions now under consideration limits the availability of the exemption by industry groups. The Federal Securities Act under which the Commission is empowered by the Congress to promulgate the exemptive regulation does not show any Congressional purpose to make the financing of one industry group more easy than the financing of any other industry group.

We can assure you that so far as the industry groups you mention are concerned, as well as for industry groups generally, no unnecessary or burdensome restrictions are contemplated, and whatever further revisions of the exemptive regulation we decide to adopt will be consistent with the Congressional purpose of investor protection expressed in the Federal Securities Act.

We are giving serious consideration to the view you express that the availability of the exemptive regulation should not depend upon demonstration of one year of profitable operations by the company seeking to offer securities under the exemption.

We also observe with interest that in connection with our proposals to limit the aggregate number of securities which can be issued under the regulation, which are designed to benefit the investing public by limiting the sale of "penny stocks", you suggest that we consider adopting a revision of the rule which would provide for a maximum number of units of 300,000, rather than 100,000 as we proposed. Such a provision would permit new equity financing for small business enterprises at a price per share of not less than $1.

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I am enclosing a copy of a talk "The Securities Markets - and Responsibilities in the Financing of Small Business" which I delivered on October 12. This describes the efforts which the Securities and Exchange Commission has taken to improve the administration of the exemptive regulation so that it does not place such burdensome requirements upon small business as to discourage the raising of a limited amount of capital from the public by disclosure requirements short of full registration, but on the other hand furnishes protection to the public, as contemplated by the Federal Securities Act, from misrepresentation and fraud in the offer and sale of securities of small business enterprises.

Also described in this talk is the Commission's recently established Branch of Small Issues in our Division of Corporation Finance in Washington which will be responsible for supervising and coordinating the examination by the Commission's staff, both in our Washington headquarters and in our field offices in nine principal cities, of the filings for exempt offerings not exceeding $300,000 in amount.

Sincerely yours,

/s/ J. Sinclair Armstrong
Chairman

Securities Exchange Act Release No. 5392

The Securities and Exchange Commission has instituted proceedings under the Securities Exchange Act of 1934 to determine whether to deny registration as a broker-dealer to P. J. Gruber & Co., Inc., Washington, D. C. The hearing therein is scheduled for November 8, 1956, at 10:00 A. M., in the Commission's Washington Regional Office.

P. J. Gruber & Co., Inc., a Delaware Corporation, of Washington, D. C., filed an application for registration as a broker-dealer on September 25, 1956. Such application discloses that Peter J. Gruber owns 90% of the stock of P. J. Gruber & Co., Inc., and that Phil Sacks is its president. Peter J. Gruber is the president, treasurer, director, and sole stockholder of Peter J. Gruber & Co., Inc., a New York Corporation, of New York City, which is registered as a broker-dealer.

In its order for proceedings, the Commission asserts that information obtained as a result of an investigation by its staff "tends to show" that the New York registrant and Peter J. Gruber offered and sold shares of the $1 par value common stock of Acoustica Associates, Inc. when no registration statement under the Securities Act of 1933 had been filed or was in effect as to such security.

It is further asserted in the Commission's order that the New York registrant made, and Peter J. Gruber and Phil Sacks caused, said registrant to make false and fictitious entries in its books and records with respect to sales of Century Controls Corporation stock.

At the hearing, inquiry will be conducted into the question whether the reported information is true, whether Peter J. Gruber and Phil Sacks have wilfully violated provisions of the Securities Act of 1933 and of the Securities Exchange Act of 1934 and rules thereunder, and, if so, whether it is in the public interest to deny registration to the Washington, D. C., applicant.

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