

Feb. 20th.

# Day, Time of Day, Exchange Name, Must Be Made Known to Clients; Exchanges Accept Drastic Rules

## Security Frauds Prevention Act Amendments, to Be Adopted by Six Provinces, Make "Short-Selling" Against Client a Civil Offense

### OFFICIAL REPORT GIVEN TO PUBLIC

## Ottawa Asked to Amend Criminal Code and to Permit Dominion-Incorporated Companies to Come Under Provincial Jurisdiction—Strict Supervision of Listing of Stocks Indicated

Report of the recent inter-provincial conference at Queen's Park on the brokerage house and stock exchange question was made public last evening by Attorney-General William H. Price, simultaneously with the release of reports by the Governments of the five other Provinces represented at the parley.

#### What Ontario Will Do.

What Ontario will recommend to improve general trading conditions and to further protect her investing public—and Ontario's recommendations are pretty well the recommendations of the other Provinces—can be summed up as follows:

1. Drastic amendments to the Security Frauds Prevention Act, with special stress laid on the regulation of trading.

2. Reformation and revision, where necessary, of stock exchange constitutions, by-laws and organizations, and the addition to those by-laws and regulations, where they do not now exist, of rigid new provisions respecting the listing of securities for trading; trading practices; clearing-house practices; brokers' records; reports to customers, and control of exchanges over members.

3. Amending of the Criminal Code by the Federal Government, not only to make easier the proving of "bucketing" charges, but to provide a seven-year penitentiary penalty for another modified type of "bucketing"—the offense of a broker reducing the quantity of stock which he should be carrying for his customers by selling for his own account against his customers' buying orders.

4. The transfer from the Federal authorities to the Province of regulatory jurisdiction over Dominion-incorporated companies operating within the Province.

#### May Be Introduced Today.

Ontario's amendments to her Security Frauds Prevention Act may be introduced by Colonel Price to the Legislature today. With the exception of those concerning "trading," they could not, because of their confidential nature, be revealed in the conference report last night. The trading amendments are as follows:

"20. (1) Whenever a person, or a member or employee of a partnership, or a director, officer or employee of a corporation, while he or the partnership or corporation is employed as a

broker by any customer to buy and carry upon margin any securities of any incorporated or unincorporated company or undertaking either in Canada or elsewhere, thereafter sells or causes to be sold securities of the same company or undertaking for any account in which

"(a) he, or

"(b) his firm or a partner thereof, or

"(c) the corporation or a director thereof,

has a direct or indirect interest, if the effect of such sale shall, otherwise than unintentionally, be to reduce the amount of such securities in the hands of the broker or under his control in the ordinary course of business below the amount of such securities which he should be carrying for all customers, any such contract with a customer shall at the option of such customer be void, and the customer may recover from the broker all moneys paid with interest thereon or securities deposited in respect thereof, and the broker shall be guilty of an offense.

"(2) The customer may exercise such option by a registered letter to that effect addressed to the broker at his address for service in this Province.

"21. Every broker who has acted as an agent for a customer shall promptly send or deliver to each customer for whom any security has been bought or sold by the broker a written confirmation of the transaction, setting forth:

"(a) the quantity and description of the security;

"(b) the name of the person or company from or to whom the security was bought or sold;

"(c) the day, and, in the case of a member of a stock exchange, the half-hours between which, and the name of the stock exchange upon which, the transaction took place,

and failure, without reasonable excuse, to comply herewith shall constitute an offense.

"22. Every stock exchange shall keep a record showing the time at which each transaction on such exchange took place and shall supply to any customer of any member of such exchange, upon production of any written confirmation of any transaction with any such member, particulars of the time at which such transaction took place, and verification or otherwise of the matters set forth in such confirmation.

#### Exchanges Agree.

Conference recommendations for the regulating of the stock exchanges, which are actually a boiling-down of the best regulations of the New York, Toronto and Montreal exchanges, have already been subscribed to by the two local exchanges. The conference held that it was not expedient at the present time to recommend for enactment any specific legislation relating to exchanges other than certain amendments to the Security Frauds Act, or similar

statutes, and amendments to the Criminal Code and the Dominion Companies Act, provided that the stock exchanges would carry on in such manner as will meet with the approval of the Provinces represented at the conference, and enforce adequate regulations for the proper conduct of their business and discipline of their members. What the conference believed should be provided for in the by-laws and regulation of the exchanges, if not already in effect, was as follows:

"I. As to listing securities for trading:

"The conference has found that, while upon certain exchanges careful inquiry appears to be made before securities are allowed to be listed, upon certain others the information required does not appear to be sufficient, nor does the inquiry made appear to be adequate.

"The conference therefore recommends that in the latter cases more careful scrutiny be made and that listing be not permitted or continued, unless:

"(a) annual meetings are held;

"(b) annual and adequate financial statements are sent to shareholders;

"(c) important changes in the company's capital, finances, operations and progress are reported to the exchange as they occur, and upon the demand of the exchange;

"(d) full information is afforded to the exchange from time to time and as required by the exchange as to the allotment, issue, sale and distribution of vendors stock, and particularly to the case of mining and oil companies, and that reasonable restrictions are placed upon the sale of vendors or pooled stock where necessary to permit the financing of the treasury of the company;

"(e) all essential information, when ever required by the exchange from the company before or after listing its securities, is furnished, if requested, upon affidavit;

"(f) the company demonstrates that it has already been financed to a degree satisfactory to the exchange.

#### Trading Practices.

"II. As to trading practices:

"(a) In addition to any legislation that may be enacted, the exchange should take all possible steps to prevent absolutely the practice of trading by brokers, directly or indirectly, against the accounts of their customers, as this practice has been the cause of many of the abuses in respect of which complaint is made.

"(b) Steps should be taken to provide that a broker trading for another broker shall not purchase or sell the shares traded in from, or to, the broker for whom he is acting.

"(c) In view of the possibility of abuse in the sale to one customer of shares ordered to be sold by another customer of the same broker, the rules and practices as to 'put throughs' and 'cross-sales' to be carefully supervised and controlled.

"(d) No member of any exchange to trade with any employer or partner of any other member of any exchange without the written approval of such member, and a monthly statement of any such trading to which consent has been given to be rendered to the consenting member and (or) his firm.

"(e) Where brokers hold securities fully paid for by their customers such securities should be segregated and earmarked as held in trust for each customer owning the same.