

DECLASSIFIED

E.O. 11652, Sec 3(E) and 5(D) or (E) NNDG# 760050

894.5171/ 1-145-----12-3149



THE FOREIGN SERVICE OF THE UNITED STATES OF AMERICA

Handwritten initials and scribbles at the top right.

Office of the U. S. Political Adviser for Japan

Tokyo, May 20, 1949.

46876

REC'D JUNE 2

No. 325.

Stamp: DIVISION OF FINANCIAL AFFAIRS, JUN 2 1949, DEPARTMENT OF STATE

ACTION OFD

CONFIDENTIAL

INFO FR DCR FE ITP OLI POS FBO TREAS FRB COM SEC

Subject: Comments Regarding Opening of Stock Exchanges.

The Honorable The Secretary of State, Washington.

Sir:

I have the honor to refer to this Mission's unclassified despatch No. 324 of May 20, "Opening of Stock Exchanges in Tokyo, Osaka, and Nagoya," and to bring to the Department's attention classified comments made by interested officials of the Economic and Scientific Section, General Headquarters, Supreme Commander for the Allied Powers, upon the recent opening of the three exchanges.

It will be remembered that the reference despatch contained a summary of press comments, the burden of which was that the success of the exchanges and the efficacy of the Securities and Exchanges Law (Law No. 25 of 1948, promulgated April 13, 1949) will depend in great measure on the integrity of stock dealers. Officials of General Headquarters most interested in stock disposals agree in this conclusion, but are doubtful of the ability or desire of stock dealers to conform to the new law. It has been found, for instance, that most of the dealers in Tokyo are unfamiliar with the details of the Securities and Exchanges Law, and that many of them regard it as an unnecessary encumbrance.

In this connection, it may be noted that Mr. L.A. RANDALL, the Chief of the Securities Branch, Anti-trust and Cartels Division, Economic and Scientific Section, has voiced his concern over widespread reports, publicized most prominently in the Yomiuri Shimbun (Tokyo) of May 13, to the effect that the Department of State desires to buy the Mitsui Main Building in Tokyo. While the local origin of this report has not yet been determined, it has been given circulation by the Chinese Central News Agency, which is managed by an American citizen, Norman SOONG. Mr. Soong has been taken to task by this office for disseminating this false report,

CONFIDENTIAL

ACTION

RETURN TO DC'S FILES WITHIN 14 DAYS, WITH A NOTATION OF ACTION TAKEN.

894.5171/5-2049

Handwritten notes: 1XR, Page # 2, 2, XR 8/11/51

Stamp: FAP FILED JUN 17 1949

Tokyo's Despatch No. 325,
May 20, 1949.

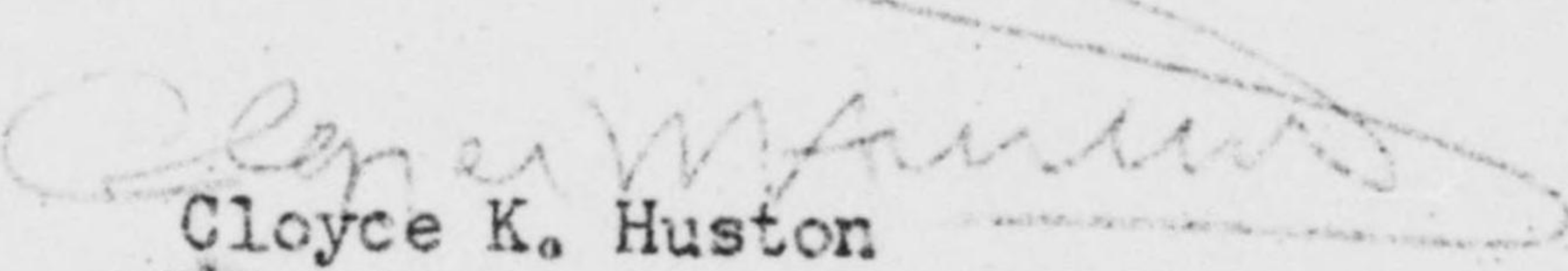
- 2 -

report, but has thus far declined to reveal the source of his erroneous information.

According to Mr. Randall, such rumors are quite possibly being circulated to depress the stocks of the Mitsui Real Estate Company (they have indeed had that effect) for speculative purposes; should that prove to be the case, it would of course constitute a serious infringement of the Securities and Exchanges Law. While not necessarily reflecting the low ethical standards of securities dealers, the incident is an illustration of the sort of manipulation that may be expected to occur, and is considered especially interesting in view of the Department's involvement.

With regard to the probable effects of the opening of the exchanges on the disposition of securities now held by the Holding Companies Liquidation Commission, officials of the Anti-trust and Cartels Division state that they do not expect the disposal program to be significantly speeded up by the new exchange procedures, but that surveillance of stock sales will be facilitated by the requirement for reports on all transactions. It has been almost impossible to determine who has actually bought stock under the over-the-counter market heretofore in operation.

Respectfully yours,


Cloyce K. Huston
Chargé d'affaires ad interim

Parchment mat to the Department.

501.7
EGSeidensticker, Jr.:lee

CONFIDENTIAL

(J.B.C.)



THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

46555

OFFICE
FA
ATT

Office of the U. S. Political Adviser
for Japan

Tokyo, May 20, 1949.

DIVISION OF FINANCIAL AFFAIRS
File
MAY 25 1949
J.S.
DEPARTMENT OF STATE

REC'D
MAY 23

No. 324

ACTION
OFD

UNCLASSIFIED

INFO
FR
DCR
FE
ITP
OLI
COM
SEC
TREAS
FRB

Subject: Opening of Stock Exchanges in Tokyo, Osaka, and Nagoya.

The Honorable
The Secretary of State,
Washington.

Sir:

m 1/

I have the honor to forward a copy of a SCAP memorandum for the Japanese Government (SCAPIN 2004) of 11 May 1949, "Securities Exchanges"; to report on the opening of stock exchanges in Tokyo, Osaka, and Nagoya in accordance with the provisions of SCAPIN 2004; and to bring to the attention of the Department significant press comments on the opening of the exchanges.

XR
8/11/51

SCAPIN 2004 states simply that a petition from the Central Liaison and Coordinating Office of the Japanese Government requesting opening of the three exchanges has been approved effective May 14, and that all transactions will be in accordance with controls imposed by SCAP. SCAPIN 2004 also directs the Japanese Government to submit applications for further openings and reopenings of stock exchanges for the approval of General Headquarters. It is understood that, as soon as preparations have been completed, petitions will be submitted for the opening of exchanges in Kobe, Kyoto, Hiroshima, Fukuoka, and Niigata.

Formal opening ceremonies were held in all three cities on May 14; no exchange transactions took place, however, until May 16. Contrary to expectations, the volume of trading on the 16th of May was not very high. Approximately 1,200,000 shares were traded on the Tokyo stock exchange, a figure no higher than a normal day's trading on the Tokyo curb prior to the opening of the exchange. Trading was equally slow in Osaka, apparently due more to unfamiliarity with the new methods of trading than to a lack of enthusiasm.

The opening of the exchanges, coupled with the United States Government's announcement regarding the cessation of reparations, had an immediate effect on stock prices, a general rise being led by strong heavy-industrial issues which have hitherto been liable to reparations

removals.

UNCLASSIFIED

FILED
JUN 3 1949

ACTION COPY

RETURN TO DC/R FILES WITHIN 14 DAYS, WITH A NOTATION OF ACTION TAKEN.

894.5171/5-2049

DMR

Tokyo's Despatch No. 324,
May 20, 1949.

- 2 -

removals. Japan Steel Manufacturing Company led on the Osaka market, with a gain of 63 points, followed by Mitsubishi Heavy Industry and the Nisshin Chemical Company. Other strong issues were the Kobe Steel Company, the Fuso Metals Company, the Japan Power Generation and Transmission Company, and the Tokyo Bearing Company. The same trends appeared in the Tokyo and Nagoya markets, which were apparently strongly influenced by the Osaka market.

The basic regulations governing the sale of securities and the operation of the exchanges are outlined in the Securities and Exchanges Law, Law No. 25 of 1948, promulgated April 13, 1948, and published in the Official Gazette of the same date. The Securities and Exchanges Law, which runs to 210 minutely detailed articles, contains the following significant provisions:

1) Registration of Stock: the issuer of the security must file a detailed statement describing the issue with the Securities and Exchanges Commission, the filing to be considered effective on the thirtieth day after receipt of the statement by the Commission; no security may be sold before the effective date of the filing, and every issue must be accompanied by a prospectus containing no information at variance with the statement presented to the Commission;

2) Securities Dealers: all dealers must be registered with the Securities and Exchanges Commission, and must keep indebtedness within a fixed ratio to capital as prescribed by the Commission; dealers may not act as principle and as agent or broker in the same transaction; dealers must prepare and deliver to customers "without delay" statements of all transactions; dealers may not extend credit in excess of 55 per cent of the current value of securities to be purchased (The Commission may lower but not raise the rates); no dealer may resort to any fraudulent device, including quotation of a false price, in a securities transaction, or obtain money or property by misrepresentation or omission of facts; no dealer may sell securities on installment in contravention of the Commission's regulations;

3) Dealers Associations: dealers may, upon proper registration, form associations to promote equitable sales of securities and to contribute to the protection of investors;

4) Securities Exchanges: members of exchanges must register with the Securities and Exchanges Commission; exchanges may not carry on any business not directly related to the purchase and sale of securities; only members may conduct transactions on the securities market provided by the exchange; with special exceptions in certain cases of securities filed with other exchanges or with the Commission, only stocks registered with an exchange may be traded on its market (this provision does not apply to national or local bonds, or to other classes of securities which may be designated by the Commission); exchanges must publicize the volume of sales and the

highest

UNCLASSIFIED

Tokyo's Despatch No. 324,
May 20, 1949.

- 3 -

highest and closing stock quotations; no person may employ such devices as simulated purchases to create an appearance of activity with regard to a stock issue; no member entrusted with transactions on the security market may act as party, broker, or agent, without actual buying and selling on the securities market; if a transaction is completed, the exchange member involved must prepare a report and submit it to his client within 48 hours after the transaction; no person may effect sale of a security without owning it, or order that a security be purchased or sold upon reaching certain limits prescribed by him;

5) Securities and Exchanges Commission: a three-man Securities and Exchanges Commission, appointed by the Prime Minister for a term of five years, is set up to enforce the law;

6) Miscellaneous: the courts are empowered, upon plea of the Securities and Exchanges Commission, to issue cease-and-desist orders; no person may provide facilities similar to a stock market, or make use of such facilities; to prevent officials of issuing companies from capitalizing on inside information, any profits realized by transactions in company issues must revert on demand to the company;

7) Punitive: detailed provisions provide for maximum penalties of 3 years imprisonment or a fine of ¥100,000 for circulating false rumors, using "deceptive schemes", or resorting to assault or intimidation in securities transactions; for employing certain other deceptive practices; for establishing a stock exchange in violation of the provisions of the law, or for violating a court order issued pursuant to the law; penalties are also provided for numerous lesser offenses.

The Japanese press has hailed the opening of the stock exchanges as an important step on the road back to normalcy, but has warned that an important responsibility rests with securities dealers, who, it is implied, are somewhat dissatisfied with the new regulations. The large dailies have also dwelt at some length on the question of the stock exchanges in their relation to larger problems, such as the current shortage of funds and the generally speculative nature of the Japanese economy. The Mainichi Shimbun, Tokyo, on May 13, in an article headlined "Return to Normalcy Seen with Stockmarket Ban Lift", voiced its thanks to General MacARTHUR for his realization that the Japanese economy is in a position to support the exchanges, but warned that this "fundamental improvement... depends to a great extent upon stockbrokers' endeavors." On May 8, the Mainichi noted editorially that the opening of the exchanges may be expected to contribute to economic recovery, and expressed the hope that securities dealers would see fit to follow the new regulations in spite of their strangeness and novelty:

"Practically, the collective market, which has its origin in the over-the-counter operations of dealers since 1946, will be organized in accordance with this new regulation. However, the market will be placed under severe restrictions, such as the banning

of

UNCLASSIFIED

Tokyo's Despatch No. 324,
May 20, 1949.

- 4 -

of bucketshops and short selling and inclusion of the time of transaction on documents. Therefore, dealers may feel inconvenienced for the time being. Since these restrictions aim at protecting the interest of buyers, it is hoped that stock-dealers will adapt themselves to the new practice as quickly as possible for the purpose of developing sound stock transactions."

The Mainichi found grounds for suspicion that stock speculation is at present taking place in anticipation of reappraisal of assets or introduction of foreign capital, but blamed the situation on a shortage of funds, which situation, the paper said, must be alleviated before the stock markets can be expected to operate as smoothly as in the United States.

The Tokyo Shimbun on April 27 admitted that dealers have cause for dissatisfaction with the troublesome new regulations, but warned that "security dealers cannot afford to adhere to past methods," and voiced the hope that dealers will "co-operate positively in the new structure...regardless of the various inconveniences attendant on their inexperience with the new transactions methods." The Tokyo Shimbun also noted that it will be necessary to produce underwriting specialists "such as the Morgan Company of the United States."

The Nihon Keizai Shimbun, Tokyo, on May 13 pointed out that restrictions on speculative transactions may slow down stock turnovers, but felt that "the elevation of stock merchants' moral integrity and the protection of their clients' interests are more important issues." The newspaper commented further:

"The newly-opened stock market is to be run under three principles: (1) no speculative transactions will be admitted; (2) the time of all security dealings and receipt of orders from clients will be recorded; (3) except for some special cases, security dealings will be made through the stock exchanges. Since speculative dealings have been prohibited since the end of the war, the first new principle will have no effect in this regard. However, the other two principles--particularly the third, which prohibits security dealings in brokers' shops without transactions in the stock exchange--will, it is feared, cause a decline in the transactions volume since such dealings have accounted for the greater part of all postwar security dealings. These may cause some practical inconvenience due to the new stock exchange rule, but such inconveniences may be overcome as dealers gain experience in the practice. Those who are concerned with the stock market are urged to become well versed in the new rules and to utilize them to the best advantage."

It

UNCLASSIFIED

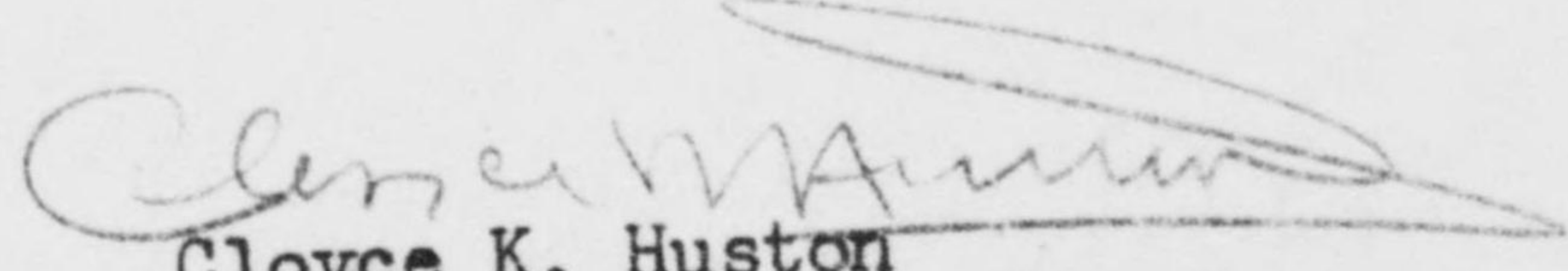
Tokyo's Despatch No. 324,
May 20, 1949.

- 5 -

It may be noted in connection with the Nihon Keizai editorial that over-the-counter transactions are prohibited only in the cases of stocks listed on the exchanges. In view of the large number of unlisted stocks, it is to be expected that such transactions will continue to constitute a major item in the securities market, and the difficulties for brokers are, therefore, not likely to be so formidable as the editorial writer predicts.

The Asahi Shimbun, Tokyo, on May 15 echoed much the same sentiments, but noted that reform of the stock markets and strict compliance with the law cannot alone be expected to erase speculation, in view of basic "speculative elements" present in the economy. Among those elements the paper listed reappraisal of assets and the possible influx of foreign capital.

Respectfully yours,


Cloyce K. Huston
Chargé d'affaires ad interim

Enclosure: *att*

SCAPIN 2004 of May 11, 1949,
"Securities Exchanges".

Parchment mat to the Department.

501.7
EGSeidensticker, Jr.:lee

RKM

UNCLASSIFIED

UNCLASSIFIED

Enclosure No. 1 to Despatch No. 324,
dated May 20, 1949, from the Office of
the U. S. Political Adviser for Japan,
Tokyo, on the subject "Opening of
Stock Exchanges in Tokyo, Osaka, and
Nagoya".

(COPY)

GENERAL HEADQUARTERS
SUPREME COMMANDER FOR THE ALLIED POWERS
APO 500

AG 091.3(5 May 49)ESS/FIN
SCAPIN 2004

11 May 1949

MEMORANDUM FOR: JAPANESE GOVERNMENT

SUBJECT: Securities Exchanges

1. References are:

a. Memorandum for the Japanese Government, AG 091.3
(25 Sep 45)ESS, (SCAPIN 59), 25 September 1945, subject:
Securities Exchanges.

b. CLCO Memorandum No. 1193(IL) dated 5 May 1949, sub-
ject: Opening of Securities Exchanges, which requests authori-
zation to open the securities exchanges in Tokyo, Osaka and Nagoya
at the earliest practicable date.

2. Memorandum for the Japanese Government, AG 091.3(25 Sep 45)
ESS, (SCAPIN 59), subject: Securities Exchanges, is hereby re-
scinded.

3. The request to open securities exchanges in Tokyo, Osaka,
and Nagoya as submitted in reference b above is hereby approved and
the opening date of those securities exchanges is specified as
14 May 1949.

4. Transactions on all securities exchanges shall be subject
to such controls as are deemed necessary by General Headquarters,
Supreme Commander for the Allied Powers.

5. The Japanese Government is directed to submit for ap-
proval of General Headquarters, Supreme Commander for the Allied
Powers, separate requests for the opening or reopening of other
securities exchanges, commodities exchanges, or similar institutions
at such time as those institutions have demonstrated to the Japanese
Government that they are so organized as to comply with the existing
laws of Japan.

6. Direct communication between appropriate agencies of the
Japanese Government and General Headquarters, Supreme Commander for
the Allied Powers, is authorized for the implementation of this
memorandum.

FOR THE SUPREME COMMANDER:

R. M. LEVY,
Colonel, AGD,
Adjutant General.

UNCLASSIFIED