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SECURITIES AND EXCHANGE COMMISSION
Washington, D. C.

SECURITIES EXCHANGE ACT OF 1934
Release No. 4983

TRADING IN GERMAN SECURITIES
AND
ADOPTION OF RULE X-15C2-3 UNDER THE
SECURITIES EXCHANGE ACT OF 1934

On December 8, 1941, following the attack on Pearl Harbor, the national securities exchanges suspended dealings in securities of German, Italian, Japanese and other Axis origin; and the Commission, having consulted with the State and Treasury Departments, requested the cooperation of brokers and dealers in refraining from effecting transactions in all securities of such origins. Trading was restored in Italian securities in December 1947 and in Japanese securities in November 1950.

In March, 1951 following the announcement by the Government of the Federal Republic of Germany (West Germany) of its recognition of pre-war external debts of the German Reich, the Commission, having consulted with the State Department, advised that it did not intend to withdraw its request that brokers and dealers refrain from effecting transactions in German securities until full assurances could be given to investors, through validation proceedings, that only securities which constitute "good delivery" would be afforded a market in the United States. This action was necessary because of the large volume of German securities, particularly foreign currency bonds, reacquired by the Germans and held in negotiable form in Berlin, which were lost or looted after the occupation of Berlin in 1945 by the Soviet armed forces. In September, 1952 and April, 1953 the Commission again requested brokers and dealers to refrain from effecting transactions in German securities pending the establishment of appropriate validation procedures.

The Federal Republic of Germany has enacted legislation requiring the validation of foreign currency bonds and certain internal securities, and procedures for validation have been or are being established. The Agreement on German External Debts signed in London on February 27, 1953 provided that the Federal Republic would permit the settlement of certain debts, including German foreign currency securities, and would provide the necessary foreign exchange to permit payments on debts which are settled. Validation is a necessary step before a bondholder may participate in a settlement which may be offered pursuant to the Agreement of February 27, 1953. An exchange offer has been made by the Federal Republic with respect to certain issues of the German Reich and the Free State of Prussia, and an issue of the Conversion Office for German Foreign Debts. It is understood that further exchange offers are being negotiated. Negotiations in the case of dollar bonds issued or guaranteed by West German states or municipalities are being conducted by the Foreign Bondholders Protective Council, Inc., 90 Broad Street, New York 4,

German Bond
Charmans files
Validation Program
Box 112

New York, and negotiations in the case of other German dollar bonds are being conducted by the United States Committee for German Corporate Dollar Bonds, 910 - 17th Street, N. W., Washington 6, D. C. Inquiries concerning these matters should be addressed to the Foreign Bondholders Protective Council or to the Committee for German Corporate Dollar Bonds, whichever is appropriate.

The procedures for validation are not identical for all securities. Under an Agreement dated February 27, 1953 entered into between the United States Government and the Federal Republic of Germany, a joint German and American board has been established in this country to validate German dollar bonds, and registration of such securities for validation began in September 1953. In addition, under the provisions of a Treaty between the Federal Republic and the United States signed on April 1, 1953 no German dollar bond subject to the validation laws of the Federal Republic is enforceable unless and until it has been validated.

In addition to the problem of validation, the Commission has been concerned with obtaining for investors recent information about the various issuers of German dollar securities. Such information is considered desirable in connection with the resumption of trading in such securities. In November, 1952 the Commission initiated steps through the Government of the Federal Republic looking to the furnishing of current information by the German issuers. Such information about the Federal Republic is now available in a circular dated October 6, 1953, which relates to the exchange offer which it is now making. Copies of the circular may be obtained from the exchange agents: J. P. Morgan & Co. Incorporated, 23 Wall Street, New York 8, New York and Dillon, Read & Co., 48 Wall Street, New York 5, New York. Since information about the other German issuers had not been furnished, the Commission in November 1953, after consultation with the Department of State, sent direct requests to sixty-three issuers of German dollar obligations, and again requested the assistance of the Government of the Federal Republic. As a result of such efforts, thirteen German issuers have transmitted to the Commission copies (in the German language) of their annual reports, but the remaining fifty issuers have so far failed to send information. The annual reports on hand are available

- 17 City of Cologne; City of Frankfurt am Main; City of Munich; Dortmunder Stadtwerke A.G. (Dortmund Municipal Utilities); Electrowerke A.G. zu Berlin (Electric Power Corporation of Berlin); Energie-Versorgung Schwaben A.G. (Consolidated Hydro-Electric Works of Upper Wurttemberg); Feldmehle Papier & Zellstoffwerke, A.G. (Feldmehle Paper & Cellulose Works Corp.); Hamburger Hochbahn A.G. (Hamburg Elevated, Underground & Street Railways Co.); Hamburgische Electricitaets-Werke A.G. (Hamburg Electric Company and Unterelbe Power & Light Co.); Rudolph Karstadt A.G.; Rhein-Main-Danau A.G. (Rhine-Main-Danube Corporation); Energie-versorgung Ostbayern A.G. (Oberpfalz Electric Power Corporation); Harpener Bergbau - A.G. (Harpener Mining Corp.).

for public inspection in the Commission's Washington office, and where sufficient copies have been received, are also available for public inspection at the Commission's regional offices in New York, Chicago and San Francisco. Reports received from other German issuers will likewise be made available for public inspection as rapidly as they are received.

On November 20, 1953 the Securities and Exchange Commission announced that it had under consideration a proposal to adopt a rule under Section 15(c)(2) of the Securities Exchange Act of 1934 to prohibit brokers and dealers from trading in the over-the-counter market in German securities which are required to be and have not been validated pursuant to the validation laws of the Federal Republic of Germany. The Commission has considered all of the comments and suggestions received and has adopted Rule X-15C2-3 in the form stated below.

This new rule makes it a "fraudulent, deceptive or manipulative act or practice", as used in Section 15(c)(2) of the Act, for any broker or dealer to effect any transaction in, or to induce the purchase or sale of, any German security required to be validated under applicable validation laws of the Federal Republic of Germany unless it has been duly validated. If such security is a dollar security, it must have attached to it a document of the Validation Board for German Dollar Bonds certifying to the validation of such security. The Commission has been informed by representatives of the various exchanges upon which German securities have been traded that securities which have not been validated will not be considered "good delivery" against sales made on these exchanges.

The Commission has been informed that, where the authenticity of an outstanding dollar security has been established, the Validation Board will attach to each such dollar security a document certifying to its validation. Consequently, Rule X-15C2-3 provides that a German dollar security required to be validated cannot be traded unless this document is attached to it. Since the Commission has no assurance that a validated security other than a dollar security will have any document certifying to its validation attached to it, a broker or dealer proposing to effect a transaction in such a security will have to be certain that it has been duly validated; if he should effect a transaction in a security not validated as required he would be violating Rule X-15C2-3 if the mails or other jurisdictional elements are involved.

Persons wishing information regarding the validation of German dollar securities should communicate with the Validation Board for German Dollar Bonds, 30 Broad Street, New York 4, New York. Information concerning the validation of securities other than dollar securities may be obtained from the Foreign Representative of the German Federal Republic, 30 Broad Street, New York 4, New York.

In view of the above, the Commission feels that it is appropriate to withdraw its request that brokers and dealers refrain from effecting transactions in West German securities to the extent that such trading

is not prohibited under the provisions of its new Rule X-15C2-3. The Commission's action, of course, should not be construed to mean that it has in any way passed upon the merits of any of the securities which are permitted to be traded.

The Commission has no information when validation procedures will be established for dollar securities of issuers in that part of Germany under the control of the Soviet or Polish Governments. Therefore, the Commission, after consultation with the Department of State, requests that brokers and dealers continue to abstain from any activities which would tend to create a public market in these securities. While the Commission has been advised that negotiations are under way to establish validation procedures for Austrian dollar securities, the Commission requests that the securities industry also refrain from trading these securities until further notice after the establishment of validation procedures. The Commission is not in possession of any information which it feels would justify it in withdrawing its earlier request that brokers and dealers refrain from trading in securities issued by Bulgaria, Hungary, and Roumania, and by issuers in any of these countries.

Statutory Basis

Rule X-15C2-3 is adopted pursuant to the provisions of the Securities Exchange Act of 1934, particularly Sections 15(c)(2) and 23(a) thereof, the Commission deeming such action necessary and appropriate in the public interest and for the protection of investors, and necessary for the execution of the functions vested in it under the Act. In accordance with the provisions of Section 4(c) of the Administrative Procedure Act, the Commission finds that there is good cause for making this rule effective before the expiration of thirty days after its publication because brokers and dealers subject to the rule have been refraining from effecting transactions in the securities covered by the rule at the request of the Commission, and it is necessary in the public interest and for the protection of investors that the rule be made effective before the expiration of said thirty-day period.

Text of Rule

RULE X-15C2-3 - PROHIBITING TRADING IN GERMAN SECURITIES UNLESS VALIDATED

The term "fraudulent, deceptive, or manipulative act or practice", as used in Section 15(c)(2) of the Act, is hereby defined to include any act of any broker or dealer designed to effect any transaction in, or to induce or attempt to induce the purchase or sale of, any security required to be validated under any applicable validation law of the Federal Republic of Germany unless (a) such security has been duly validated, and (b) if such security is a dollar security, there is attached a document of the Validation Board for German Dollar Bonds certifying to the validation of such security.

The foregoing shall become effective January 12, 1954.

By the Commission.

Orval L. DuBois
 Secretary