Mr. COLE. All right; is that all you wanted to say?

Mr. TRAYLOR. I understood that you wanted to suspend, and I do not want to take your time.

Mr. COLE. Can you wait until we get back?

Mr. TRAYLOR. I am catching a plane, Mr. Chairman.

Mr. COLE. Go ahead with your statement. I will wait for you.

Mr. TRAYLOR. One reason why I am in favor of the bill very strongly is that it provides, among other things, a method of standardizing selling practices and of the controlling unconscionable loads or selling costs. It provides reasonable restrictions on recurrent promotions. It provides for maintenance of the open-end provisions, whereby the shareholder is permitted to take down his share of the assets at liquidating value at any time; it provides for filing of copies of all sales and supplemental literature with the Securities and Exchange Commission; it provides for reasonable segregation of management from sales; and it eliminates certain exchange offers, that is, a type of exchanges that were made some years ago. That type of thing cannot be repeated under this bill. It also provides for registration of many companies that are not now registered under the Securities Act.

Those particular points have considerable to do with sales, and I am very, very strong for the passage of the bill as it is now written, although I objected to many of the provisions of it as it was written in the beginning.

Thank you.

Mr. COLE. Thank you.

STATEMENT OF MR. HUGH BULLOCK, VICE PRESIDENT OF CALVIN BULLOCK, NEW YORK, N. Y.

Mr. COLE. Mr. Bullock, you want to catch a plane too?

Mr. BULLOCK. Yes, sir, Mr. Chairman.

Mr. COLE. We will hear you.

Mr. BULLOCK. Mr. Chairman, my name is Hugh Bullock, vice president of Calvin Bullock, a New York joint-stock association. My statement is very brief.

I approve of this bill and hope very much indeed it will become law as soon as possible.

Both the Securities and Exchange Commission and the investment-company industry were generally in favor of legislation. As to methods, their ideas originally differed, but we have come together in this bill, H. R. 10065.

I thank you very much.

Mr. COLE. Thank you.

Gentlemen, in order to be given an opportunity to vote on the Bridges bill, we will suspend for a few minutes.

(After a short recess:)

Mr. BOREN. The committee will come to order. We will hear Mr. Griswold.

STATEMENT OF MERRILL GRISWOLD, CHAIRMAN OF MASSACHUSETTS INVESTORS TRUST, BOSTON, MASS.

Mr. GRISWOLD. Mr. Chairman, my name is Merrill Griswold. I am chairman of the Massachusetts Investors Trust of Boston and chairman of Supervised Shares, Inc., Boston, which are both open-end companies.

Massachusetts Investors Trust was the first open-end trust in this country, organized in 1924, and it has about 50,000 shareholders scattered throughout the United States.

Mr. BOREN. Would it be in order to briefly define the open-end trust?

Mr. GRISWOLD. An open-end trust, Mr. Chairman, differs from the closed-end trust in two important respects. With very few exceptions the open-end companies only have one class of stock; namely, common stock. They do not have preferred stock or bonds ahead of it.

The other difference is that the holder of a share of an open-end trust can at any time tender it for redemption and receive back its then value, which may be greater or less than what the shareholder paid for it.

The shares of open-end trusts are revalued at least once a day in accordance with quotations on the various stock exchanges.

The other difference is they continually sell shares to replace shares which are repurchased or which they redeem.

I should like to say that we at all times have believed this industry should be regulated. We were not satisfied with the bill as introduced. We thought it was too harsh in places and not specific enough in many of its provisions. We are, however, now satisfied entirely with the bill and it is the result of a great amount of work which has been done on it by the industry in collaboration with the Securities and Exchange Commission.

Mr. BOREN. You do not object to an interruption?

Mr. GRISWOLD. No, sir.

Mr. BOREN. I would like at that point, in connection with your statement that you have felt that there should be some sort of regulation, to ask you, are you in a position to indicate roughly how many companies there are in the country engaged in this type of business or how much money they represent, indicating to what extent abuses have existed in the industry; whether it is a large percent of the companies or whether they are minor abuses sifting down through all of the companies. Do you understand my question?

Mr. GRISWOLD. As regards the open-end trusts, I should say that about $500,000,000 represented the capital at the present time. The other, closed-end trusts, the closed-end trusts which are management trusts, represent a sum slightly in excess of that, and then you have many kinds of miscellaneous trusts, bringing the total of all investment trusts up to a much larger figure. How large it is, I do not know.

Mr. BOREN. How many companies are engaged, approximately, in open-end trusts?

Mr. GRISWOLD. In the open-end business, there are about—Mr. Schenker will correct me if I am wrong—I would say there are about 25 well-known active trusts of considerable size and Nation-wide distribution. There are probably a great many more small trusts which operate locally.

Mr. BOREN. Well, now, are the abuses which you conceded in the opening part of your statement matters that to some extent are practices of all of the companies, or is it that, say, out of 25 or 100, or however many companies there are, a small percent of the companies which are practicing these abuses that you want regulated?

Mr. GRISWOLD. I can best answer that by saying each kind of investment trust had its own peculiar abuses or criticism. We were criticized for certain things; the closed-end trusts were largely criticized more for things which were applicable to their kind of trusts. The principal criticism against the open-end trusts had to do with the method of their sales, as Judge Healy pointed out this morning. As a group, there were not many specific criticisms of open-end companies other than those in connection with sales and distribution.

Mr. BOREN. In connection with the methods of sales that were justly criticized, were those methods confined to a few companies or were those methods generally practiced by all of the companies?

Mr. GRISWOLD. Well, I would put it this way, for the entire industry, Mr. Congressman, and this is a guess. I would say that 75 to 90 percent of the industry, of all classes, was relatively free from abuses. But there is admittedly a fringe element in the industry where abuses did take place which were against the best wishes of the industry and against the wishes of the more respectable companies.

Mr. BOREN. That is the thing that I am trying to get at now. Is the bill designed to protect the legitimate business, we will say, from the border-line, illegitimate firms, or is the bill designed, so far as your division of the industry is concerned, to correct a certain amount of malpractices that might be engaged in perhaps by all of them because of competitive elements involved?

Mr. GRISWOLD. Well, speaking for the industry generally, I would say that the legal set-up was such that they were capable of exploitation in the manner described by Mr. Schenker in any company. I would say that these abuses did not take place except in a very small element.

Mr. BOREN. You would probably indicate your own company, or take any of the reputable companies, were not guilty of these abuses, but that the public was in a sense victims of these people. Is that the position that you take? I think that the question I have in mind is clear to you and one that is pertinent to the purposes of this legislation.

Mr. GRISWOLD. I did not quite follow you. Will you be a little more specific?

Mr. BOREN. Well, for example, we had legislation not too long ago to control the over-the-counter marketing.

Mr. GRISWOLD. Yes, sir.

Mr. BOREN. Not because all of the people engaged in that business were doing these things that should not be done, but because a small percentage of the border-line people were engaged in malpractices, contrary to the wishes of the industry itself.

Mr. GRISWOLD. That is right.

Mr. BOREN. Now, that legislation was directed at a specific group of people and to of course put an end to those malpractices, by the enactment of law and regulation and to require that the companies guilty of these malpractices would do their business in a manner that it was already carried on by the more legitimate firms.

Mr. GRISWOLD. Right there, Mr. Congressman, the securities of open-end investment companies are distributed in over-the-counter security markets. These special problems were not specifically covered by what is known as the Maloney Act, which was an amendment to the 1934 Securities Exchange Act, and one of the advantages

of this bill is that it amends the Maloney Act provisions of the 1934 act so as specifically to cover the problems which particularly affect the distribution of shares of open-end investment companies and trusts, because as in the over-the-counter securities generally, there was a small fringe element which indulged in undesirable practices, for example in what is known as riskless trading. There have been instances of it in our business, as no doubt in the case of other over-the-counter securities, and that it taken care of by amplifying the Maloney Act provisions to cover specifically this kind of securities, except that this act goes somewhat further than that. While it places these companies under the jursidiction of the Maloney Act it provides in effect, that if the industry does not, through the Maloney Act, properly cure these abuses within 1 year from the effective date of the act, the Securities and Exchange Commission may then step in specifically and further regulate them.

Mr. BOREN. You may proceed with your regular statement.

Mr. GRISWOLD. Well, I should like to assure you that this measure has the practically unanimous approval of the open-end companies, as it is now drafted. The representatives who came here from Boston and New York and Chicago made it a point at all times to inform the smaller companies in their localities of what was going on and invite their criticism and to keep them fully posted.

In that connection, I would like to say that I have several letters here from the smaller companies which might be well to file. I have the approval for example from the Eaton & Howard trust, which is an open-end company; I have the approval from the Boston Fund, which is an open-end company in Boston; likewise from Fidelity Fund, Inc., in Boston; likewise Century Shares Trust, Boston, and likewise Bay State Fund, Inc., Boston, Mass.; and if time had not been so short I have no doubt we could have gotten similar letters from all of the open-end companies we know about.

(The letters above referred to are as follows:)

EATON & HOWARD,
Boston, June 12, 1940.

HOUSE INTERSTATE AND FOREIGN COMMERCE SUBCOMMITTEE,
Washington, D. C.

GENTLEMEN: We believe that great care has now been exercised in drafting the proposed Wagner-Lea bill, which we understand is under consideration by you, providing for registration and regulation of investment companies and investment advisers.

Eaton & Howard, Inc., manages and supervises individual investment accounts, and in order to take care of persons of more moderate means desiring our services, we have established certain management funds, known to you as investment trusts. It is our conviction that the Wagner-Lea bill, in its present form, constitutes a constructive effort on the part of the industry, the Securities and Exchange Commission, and the Senate Committee on Banking and Currency toward desirable regulation.

In view of the background of preparation of the bill, and the circumstances surrounding it, we suggest that it is in the interest of all concerned that the proposed legislation be passed in its present form and at this session of Congress.

Very truly yours,

EATON & HOWARD INC.,
By CHARLES F. EATON, JR., *President.*

EATON & HOWARD MANAGEMENT FUNDS A–1 AND F,
By W. ELLIOTT PRATT, JR., *Trustee.*
(For the trustees.)

BOSTON FUND, INC.,
Boston, Mass., June 12, 1940.

Mr. WARREN MOTLEY,
Washington, D. C.

DEAR MR. MOTLEY: It is our understanding that the subcommittee of the House Interstate and Foreign Commerce Committee will shortly hold a hearing on the Wagner-Lea bill, to provide for the registration and regulation of investment companies and investment advisers and for other purposes.

The undersigned company, representing $5,300,000 of assets, earnestly requests that serious consideration be given by the Congress to have this bill passed in its present form during the current session. So that our wishes in this respect may be made known, we would appreciate your filing this letter as part of the record at this hearing.

Very truly yours,

BOSTON FUND, INC.,
ROBERT L. OSGOOD,
Vice President.

FIDELITY FUND, INC.,
Boston, Mass., June 12, 1940.

SUBCOMMITTEE OF THE HOUSE INTERSTATE AND
FOREIGN COMMERCE COMMITTEE,
Washington, D. C.

GENTLEMEN: It is our understanding that the subcommittee of the House Interstate and Foreign Commerce Committee will shortly hold a hearing on the Wagner-Lee bill to provide for the registration and regulation of investment companies and investment advisers, and for other purposes.

With assets of approximately $3,000,000 we earnestly request that serious consideration be given by the Congress to have this bill passed in its present form during the current session. So that our wishes in this respect may be made known, we would appreciate your filing this letter as part of the record at this hearing.

Very truly yours,

FIDELITY FUND, INC.,
RICHARD N. TALIAFERRO,
President.

CENTURY SHARES TRUST,
Boston, June 12, 1940.

WARREN MOTLEY, Esq.,
Washington, D. C.

DEAR MR. MOTLEY: It is our understanding that the subcommittee of the House Interstate and Foreign Commerce Committee will shortly want a hearing on the Wagner-Lea bill to provide for the registration and regulation of investment companies and investment advisors and for other purposes.

The undersigned company, representing about $11,000,000 of assets, earnestly requests that serious consideration be given by the Congress to have this bill passed in its present form during the current session. So that our wishes in this respect may be made known we would appreciate your filing this letter as part of the record at this hearing.

Very truly yours,

CENTURY SHARES TRUST
By LOUIS CURTIS,
Chairman.

BAY STATE FUND, INC.,
Boston, Mass., June 12, 1940.

WARREN MOTLEY. Esq.,
Washington, D. C.

DEAR MR. MOTLEY, It is our understanding that the subcommittee of the House Interstate and Foreign Commerce Committee will hold shortly a hearing on the Wagner-Lea bill providing for the registration and regulation of investment companies, investment advisors, and others.

As an investment company with assets totaling $151,000 as of March 31, 1940, we wish to express our approval of this bill and hope that it may be passed at the present session of Congress. Inasmuch as we are unable to attend the hearing, we request that this letter form a part of the record.

Respectfully submitted.

BAY STATE FUND, INC.,
By KENNARD WOODWORTH, *Vice President.*

Mr. GRISWOLD. I should like to say that I attribute the success of the industry in getting together with the Securities and Exchange Commission to the fact that we had ample time to do so. In connection with these hearings, we have been working on this matter some 3 or 4 months, and the leaders of the industry, both closed-end trusts and open-end trusts, personally acquainted themselves with these provisions. They personally came to Washington and they conferred directly with the Securities and Exchange Commission whose personnel was most cooperative once we reached an understanding.

In addition to that, both groups of trusts, in my opinion, are very, very fortunate in their selection of attorneys who were thoroughly familiar with the business. Mr. Jaretzki represented practically all of the important closed-end trusts. Our own counsel, Mr. Warren Motley, who has been familiar with this business as an expert for some 15 years, not only represented our trusts but represented in a general way a large number of the other open-end trusts who made their criticisms directly to him, so that those two attorneys were able to act as a clearing house for the industry.

There are other witnesses who testified, particularly Judge Healy and Mr. Schenker—as the result of their great familiarity with the industry, thanks to the investigation that they had made carrying over some 3 or 4 years—who had a thorough understanding of our problems and were able to see the practical situations involved. They were most fair and understanding and cooperative with the representatives of the companies and their attorneys in drafting this measure.

Mr. COLE. Thank you.

Mr. GRISWOLD. Thank you.

STATEMENT OF HENRY J. SIMONSON, JR., PRESIDENT OF THE NATIONAL SECURITIES AND RESEARCH CORPORATION, NEW YORK, N. Y.

The CHAIRMAN. Mr. Simonson.

Mr. SIMONSON. My Name is Henry J. Simonson, Jr. I am president of the National Securities and Research Corporation of New York.

I might state that my remakrs will not only cover the company that I represent, which has been 10 years in this business, but also the majority of the other companies that are engaged in the periodic payment business.

The business itself has had three basic problems: One, of costs to the investor; the other is lack of understanding of the terms of the security oftentimes occassioned by misrepresentation on the part of a salesman; the third factor is the matter of loss resulting to investors who do not complete their payments.

This legislation covers all three of these points. It limits the cost. It gives the Securities and Exchange Commission power to provide

for full disclosure and certain regulation applicable to this type of business, and it also provides for larger initial payments, which the industry knows helps reduce the lapses, and accordingly losses, to investors.

So, in speaking in behalf of the majority of the industry——

Mr. BOREN. Would you permit an interruption?

Mr. SIMONSON. Yes, sir.

Mr. BOREN. Did I understand you to say that this legislation provided for larger initial payments?

Mr. SIMONSON. Yes, sir. The periodic payment business heretofore has been largely conducted on the basis of $10-a-month payments, although there are companies that have taken payments as low as $5 a month.

Mr. BOREN. Could you give specific reference in the bill to that?

Mr. SIMONSON. Section 27 of the bill provides that a minimum payment of $20 must be made, initially, on every $10-a-month account. It also provides that not more than 50 percent of any payment can be taken for fees.

Mr. BOREN. The provision on page 104, line 10, is the one to which you refer.

Mr. SIMONSON. Yes, sir.

Mr. BOREN. Which deals specifically with a certificate that rquires a monthly payment of $10.

MR. SIMONSON. Yes, sir.

Mr. BOREN. But why do you think that that regulation should be specific in character instead of a general percentage requirement? Why not have a general percentage requirement; say, instead of having this clause, suppose that we inserted a clause which said that the initial payment must be at least twice as much as any subsequent payment?

Mr. SIMONSON. The history of the business reveals that the difficulty of people not completing their contracts is essentially in the lower-bracket units. Therefore the $10-a-month account of the person who has a lesser amount of means available, let us say—they are the ones who should make a larger advance payment. It has been found that in cases where this provision has been put in, while the volume of business has been less because of the requirement of $20 to start a $10-a-month account, the laps ratio has been less.

Mr. BOREN. Suppose it is a $5-a-month account; then how would this provision apply?

Mr. SIMONSON. Under the terms of the bill you cannot have a $5-a-month account. The minimum payment is $10 a month.

Mr. BOREN. Suppose it is a $15-a-month account.

Mr. SIMONSON. In the event of a $15-a-month account, the bill provides that the first payment shall not be less than $20; so in units you would require $30 initial payment, or two of the $15 payments, as I understand it.

Mr. BOREN. If I interpret it correctly, then, if a $20-a-month account is opened, that would require $40.

Mr. SIMONSON. No; that would only require a $20 payment, because the bill reads that the first payment shall be not less than $20.

Mr. BOREN. Then why would a $15-a-month account require $30?

Mr. SIMONSON. Well, because these accounts are set up in units, and you could not very well handle the large amount of bookkeeping

entailed by breaking up the initial payments. I say that the bill would practically work out that way. They could start an account with a $20 payment, or you could have $15 apply on one payment, but you would have an odd payment—an odd amount of a payment to carry on.

Mr. BOREN. Would you object to a regulation that required at least a $20 initial payment and an initial payment of at least twice the size of any monthly installment be required in contracts thereafter?

Mr. SIMONSON. I would not object to it specifically, but I think the industry as a whole might, from the standpoint that many people might put away $100 a month, but find it difficult maybe to make a $200 initial payment. That is where the hardship comes in, in the higher brackets.

Mr. BOREN. The point of my question, of course, lies in the brackets close to $20, where we might envision that difficulty might develop.

I have finished, Mr. Chairman.

Mr. SIMONSON. Well, in conclusion, I want to say in behalf of the people that I represent in the periodic payment business, that we urge very strongly the passage of this bill. We think it will bring greater protection to the investors. We think that it will be a great thing for us, and we are sponsoring it.

We also want to record our appreciation of the efforts of Judge Healy and other members of the Commission and its staff, and Mr. Schenker, for their cooperation.

Mr. BOREN. Just one other question, Mr. Chairman.

Mr. COLE. Mr. Boren.

Mr. BOREN. Referring to the section which imposes the criminal penalties, fine and imprisonment, and referring to the suggested amendment which the chairman brought out earlier today, do you feel that it is essential that these penalties be placed in a Federal law? Most States have criminal penalties to take care of these things.

Mr. SIMONSON. We have no objection to the penalties being in the law, and we think—we discussed that in passing upon it—and some of the other companies felt that unless there were severe penalties in there, the enforcement might be somewhat retarded.

Mr. BOREN. That is all, Mr. Chairman.

Mr. COLE. In connection with Mr. Boren's questions, are you familiar with the Texas Fund, Inc.?

Mr. SIMONSON. Yes, sir.

Mr. COLE. There position is that they request the bill be amended so as to make a minimum deposit, initially, or otherwise, not less than $5. As I understand your testimony, you think that the industry is opposed to such a change?

Mr. SIMONSON. Yes, sir; and I can carry that a little bit further by telling you that in my own company in 1932 and 1933 we made a test on accounts that provided for payments of $5 a month. In 1932 and 1933 we wrote 261 such accounts; and by 1934, 69 percent of those accounts had lapsed. The business is unsound, in my opinion.

Mr. COLE. All right; thank you.

Mr. SIMONSON. Thank you.

Mr. COLE. Mr. Crabb.

Mr. SCHENKER. Mr. Chairman, Mr. Crabb informed me that he could not come. Their main office is out in Minneapolis. I am authorized to state that he would like to appear of record in favor of this bill. He made a statement to that effect before the Senate committee.

Judge Norton, counsel for Investors Syndicate, is here.

Mr. COLE. Who?

Mr. SCHENKER. Judge Norton is here, and wants to express the same opinion.

STATEMENT OF WILLIS I. NORTON, MINNEAPOLIS, MINN.

Mr. COLE. Judge Norton, we will be glad to her you.

Mr. NORTON. Mr. Chairman and gentlemen of the committee.

Mr. COLE. Judge, will you state your name, sir, and your address?

Mr. NORTON. Willis I. Norton, Minneapolis, Minn.

Mr. COLE. You want to make a statement, Judge, on behalf of the Investors Syndicate?

Mr. NORTON. I shall be pleased to.

Our company is very heartily in favor of, and very heartily endorses this bill. We think it is sound legislation.

Mr. BOREN. I would like, Mr. Chairman, to inquire into something of the history and extent of the operations of the Investors Syndicate. It is a name that we have heard a great deal in my State, and I am particularly interested in a brief financial description and a history of the organization and its expansion, and so forth.

Mr. NORTON. The Investors Syndicate was organized as a corporation under the laws of Minnesota in 1894. It has operated ever since that date in that State and has gradually extended its operations until now it operates in, I think, 42 of the States of the United States and practically all of the Provinces of the Dominion of Canada. It has grown until its assets are around, I should say, approximately $160,000,000.

Mr. BOREN. Those assets are represented by what sort of investments?

Mr. NORTON. They are insured loans in the F. H. A., $65,000,000—I am not pretending to be precise—other first mortgages probably $28,000,000 to $30,000,000, maybe more, and the rest are high-grade bonds and cash. Very few stocks.

Mr. BOREN. Has the company ever gone through any reorganization?

Mr. NORTON. No.

Mr. COLE. Is that all?

Mr. NORTON. That is all, Mr. Chairman. Thank you.

Mr. COLE. Thank you, Judge.

STATEMENT OF JAMES WHITE, REPRESENTING SCUDDER, STEVENS & CLARK, BOSTON, MASS.

Mr. COLE. Mr. White.

Mr. WHITE. Mr. Chairman, my name is James White. I am a general partner of Scudder, Stevens & Clark, of Boston, New York, and Philadelphia. We are affected by both titles of the bill, as we have a small investment trust. My firm is heartily in favor of this bill.

We think it is necessary and we think it is constructive both in the public interest and in our own interest; in that of our investment counsel business, and investment trust business.

So far as we know, we were the first firm to use the term "investment counselor," although we were not the first investment advisers, and