

The form of application for membership, of the Investment Counsel Association of America, is as follows:

[Confidential]

INVESTMENT COUNSEL ASSOCIATION OF AMERICA

PART I. APPLICATION FOR MEMBERSHIP

(Date)-----

*Note: This application should be accompanied by letters from three members of the Association attesting to applicant's general character and investment capabilities.*

I hereby apply for membership in the Investment Counsel Association of America and submit the following information for the confidential use of the Association in passing upon this application. If I am accepted for membership, the information included herein becomes the permanent record and property of the Association; if I am not accepted for membership, this application is to be returned to me upon request.

1. Name of Applicant: ----- Age: -----  
 Address: Office: ----- Telephone: -----  
 Residence: ----- Telephone: -----
2. Schools, Colleges, and Universities attended:  

Names of Institutions	Periods Attended	Degrees Received
-----	-----	-----
3. Club and Association Memberships: -----
4. Published writings, articles, books, etc., bearing on any phase of economics, finance, or investments: -----
5. (a) Former Business Affiliations:  

Period of Affiliation	Name and Address of Organization	Nature of Business	Position Held
-----	-----	-----	-----
- (b) Present Business Affiliations:  

Period of Affiliation	Name and Address of Organization	Nature of Business	Position Held
-----	-----	-----	-----

(Signature of Applicant)-----

*(Additional information that may aid the Membership Committee in determining applicant's qualifications for membership may be offered in a letter addressed to the Membership Committee and enclosed with this application.)*

[Confidential]

INVESTMENT COUNSEL ASSOCIATION OF AMERICA

PART II. INFORMATION REQUIRED CONCERNING THE FIRM OF APPLICANT

*("Firm" as used herein means either a partnership or a corporation)*

(Date)-----

In connection with the applications for membership in the Investment Counsel Association of America of the undersigned partners or principal officers of the firm of -----, we submit the following information concerning our firm for the confidential use of the Association in passing upon our applications. If any of the undersigned are accepted for membership, the information included herein becomes the permanent record and property of the Association; if none of the undersigned are accepted for membership, this application is to be returned upon request.

1. Name of Investment Counsel Firm -----  
 Address of Main Office -----  
 Addresses of branches or affiliated offices: -----
2. Form of Organization (Partnership or Corporation): -----
3. (a) Date of Organization: -----  
 (b) Place of Organization: -----

4. If the name of the firm has been changed since date of organization, furnish each former name and date of each change of name:

-----  
*Former Name* *Date of Change*  
 -----

5. If the firm is the successor by purchase, merger, consolidation, or otherwise, of any other organization furnish in chronological order the date of each succession and the name and last address of each predecessor:

-----  
*Name and Address of Predecessor* *Date of Succession*  
 -----

6. If the firm is a corporation:

(a) State the total amount of stock authorized and outstanding:

-----  
 (b) Furnish the name and address of (1) each officer, (2) each director, and (3) each stockholder owning 10% or more of any class of the stock of the corporation, together with a statement of the number of shares held by each at the date of this application:

<i>Name and Address</i>	<i>Officer, Director or Stockholder</i>	<i>Number of Shares Owned</i>
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7. If the firm is a partnership, furnish the name and address of each partner, designating whether special, limited or full partner and give the percentage ownership of each:

<i>Name and Address</i>	<i>Special, Limited or Full Partner</i>	<i>Percentage Ownership</i>
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8. (a) The total number of full-time personnel of the firm is (including partners and officers): -----

(b) The number of full-time personnel primarily engaged in new business development is: -----

9. (a) The total part-time personnel of the firm is (including partners and officers): -----

(b) The number of part-time personnel primarily engaged in new business development is: -----

10. (a) If, during the past five years, the firm has engaged in the business of security merchandising, brokerage, banking, or the publication of financial services, or acted as custodian of the securities or funds of clients, or engaged in any business other than that of furnishing investment counsel or investment management services, briefly describe the nature of such other business or businesses:

<i>Nature of Other Business</i>	<i>Period Engaged</i>
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(b) If, during the past five years, the firm has been connected or affiliated with or was part of any other organization, furnish the name and address of each other organization and a brief description of the business of each such other organization:

<i>Name and Business of Affiliated Organization</i>	<i>Period of Affiliation</i>
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11. (a) Has the firm at any time during the past five years advertised its investment counsel services in newspapers or other periodicals? ----- If so, enclose copy of each such advertisement.

(b) Enclose copies of any booklets or other literature used in explanation of or development of the investment counsel services of your firm.

12. (a) Has the firm at any time during the past five years managed, supervised, or furnished investment advice to any common or commingled fund? (Yes or No) -----

(b) If answer is "Yes," briefly describe present relationship to such common or commingled fund.

13. (a) Has the firm at any time during the past five years managed or supervised the portfolio or security account of, or furnished investment advice to, any investment trust or investment company? (Yes or No) -----

(b) If answer is "Yes," briefly describe present relationship to any such investment trust or investment company.

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14. Current gross fees from clientele of the firm are divided as follows:
- |  |         |
|--|---------|
|  | % Total |
| 1. Individuals and Trustees .....                              | -----   |
| 2. Commingled or Mutual Investment Funds .....                 | -----   |
| 3. Investment Trusts or Companies .....                        | -----   |
| 4. Banks .....   | -----   |
| 5. Insurance Companies and Charitable Organizations .....      | -----   |
| 6. Industrial, Railroad, and Public Utility Corporations ..... | -----   |
15. What percentage of the number of clients retaining your firm on—
- |  |        |
|--|--------|
| December 31, 19...., is retaining your firm today? | -----% |
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| December 31, 19...., is retaining your firm today? | -----% |
| December 31, 19...., is retaining your firm today? | -----% |
- (Use the past five calendar years.)
16. What percentage of the total fees (exceeding \$250 per annum) received in each of the past five calendar years came from accounts retaining your firm on -----, 19....? (Fill in your most convenient recent date.)
- |        |        |        |        |        |        |        |        |
|--------|--------|--------|--------|--------|--------|--------|--------|
| 19.... | -----% | 19.... | -----% | 19.... | -----% | 19.... | -----% |
| 19.... | -----% |        |        |        |        |        |        |
17. (a) What is your regular basis of compensation for services? .....
- 
- (b) What percentage of total fees received during the past year were for special consulting services, or were not assessed in accordance with the general plan outlined in (a)? -----%
- (c) If, during the past twelve months, the firm received any compensation from clients contingent upon profits or based on the number or value of transactions executed or the maintenance of a minimum income, outline each such instance briefly: .....
- 
18. (a) Do you have written contracts with clients? ----- If so, attach form of contract used.
- (b) If you do not have written contracts with clients, explain nature and form of agreement with clients, including the minimum period for which it is understood your services will be retained. ....
- 
19. What are your usual fee periods for billing purposes? (Annual, Semi-Annual, Quarterly, or Monthly.) .....
20. Are clients billed prior to or at the expiration of fee periods? .....
21. Is the firm's accounting set-up on a cash or on an accrual basis? .....
22. (a) What percentage did the cash and good accounts receivable of the firm bear to the firm's total liabilities, including fees prepaid by clients, at the most recent accounting period as of -----, 19....? -----%
- (b) If marketable securities were owned by the firm, what percentage did such marketable securities, computed at market, bear to the firm's total liabilities, including fees prepaid by clients, at the most recent accounting period as of -----, 19....? -----%
23. (a) What percentage has the firm's average monthly cash balance borne to its total annual operating expenses (excluding drawings of partners or salaries paid to principal officers) during the past twelve months? -----%
- (b) If marketable securities were owned by the firm, what percentage has the average monthly market value of such securities borne to the firm's total annual operating expenses (excluding drawings of partners or salaries paid to principal officers) during the past twelve months? -----%
24. Is it the policy of your firm at any time to approve or recommend borrowing by clients for the purpose of carrying securities supervised or managed by your firm? ----- (Yes or No.)
- If answer is "Yes," please give full explanation of circumstances under which such borrowings may be approved or recommended: .....
- 
25. Does your firm accept responsibility for placing orders direct for clients with or without powers of attorney? ----- If so, attach copy of agreement or letter used to obtain such authority.
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730 INVESTMENT TRUSTS AND INVESTMENT COMPANIES

- 26. What percentage of total fees represent accounts for which purchase and sale orders are placed directly by your firm? ----- %
- 27. (a) Can you subscribe without reservation to the Code of Professional Practice of the Investment Counsel Association of America enclosed with this application? (Yes or No) -----  
 (b) If you have any reservations, please explain fully.

Signed: -----

(Additional information to supplement the answers included in this application may be offered in a letter addressed to the Membership Committee by the signatories to this application and attached hereto.)

AGREEMENT ENTERED INTO UPON ADMISSION TO MEMBERSHIP IN THE INVESTMENT COUNSEL ASSOCIATION OF AMERICA

Having been duly elected a member of the Investment Counsel Association of America, I hereby make the agreements hereinafter set forth, the execution of which by me is a condition precedent to my admission as a member of the Association.

I hereby agree that my membership in the Investment Counsel Association of America, and its continuation, shall be subject to all of the provisions of the Constitution and Code of Professional Practice of the Association, including any amendments thereto.

I further and expressly agree for the duration of my membership in the Investment Counsel Association of America to accept and abide by any and all decisions of the Committee on Professional Conduct and of the Board of Governors, with respect to the duration of my membership in the Association, made in pursuance of the authority conferred upon said Committees by the Constitution and Code of Professional Practice, however said Committees may from time to time be constituted.

I further agree that, in consideration of my admission to membership in the Investment Counsel Association of America, I expressly waive any claims against the Association or any of its members, which I may hereafter have, either in law or in equity, arising out of any suspension or termination of my membership in the Association by the Board of Governors or the Committee on Professional Conduct, or of any proceedings in connection therewith, or arising out of any suspension or termination of the privilege accorded to any partnership or corporation, with which I may be connected, to describe itself as "Members Investment Counsel Association of America," by virtue of my membership therein.

The foregoing agreement is entered into in my own behalf and likewise in behalf of the partnership or corporation with which I am connected; and I further state that I have the authority of such partnership or corporation to enter into such agreement in its behalf.

Dated: -----, 193--

-----  
(Name)

-----  
(Address)

Partner or Principal Office in:  
(Cross out words not applicable)

-----  
(Name of partnership or corporation)

-----  
(Address)

CODE OF PROFESSIONAL PRACTICE AND AGREEMENT OF ADHERENCE THERETO BY CANDIDATES FOR MEMBERSHIP, AUGUST 1937

CODE OF PROFESSIONAL PRACTICE ADOPTED BY THE INVESTMENT COUNSEL ASSOCIATION OF AMERICA

WHEREAS the profession of investment counsel came into being to meet a growing need for a type of competent and unprejudiced services not otherwise rendered; and

WHEREAS experience in the rendering of investment counsel services has established certain basic principles of responsibility and conduct requisite to sound professional practice; and

WHEREAS these basic principles must be accepted and maintained if the investing public is to be assured of the standard of investment counsel services to which it is entitled;

Now, THEREFORE, WE, the subscribers to this Code of Professional Practice, Do DECLARE the following principles to guide all those who profess to render investment counsel services;

Do PLEDGE ourselves and our organizations to adhere to these principles; and Do AGREE, through proper Articles of Association, to enforce such adherence by all subscribing members:

*I. Definition and limitation of functions*

It is the function of the profession of investment counsel to render to clients on a personal basis competent, unbiased, and continuous advice regarding the sound management of their investments. An investment counsel firm should devote its time exclusively to the performance of this function and services incidental thereto; it should not engage in the business of security merchandising, brokerage, banking, the publication of financial services, or acting as custodian of the securities or funds of clients; and neither the firm nor any partner, executive, or employee thereof should directly or indirectly engage in any activity which may jeopardize the firm's ability to render unbiased investment advice.

*II. Competence and responsibility*

To serve its clientele effectively and continuously an investment counsel firm should include at least two responsible partners or principal executives of demonstrated investment ability and unquestioned integrity; it should be supported by a competent staff of experienced assistants; and it should maintain adequate capital and reserves at all times.

*III. Compensation for services*

Compensation of an investment counsel firm should consist exclusively of direct charges to clients for services rendered, and should not be contingent upon profits, upon the number or value of transactions executed, nor upon the maintenance of any minimum income.

*IV. Solicitation of new clients*

The methods employed, and all written or oral statements made, by an investment counsel firm in securing new clients should conform to standards consistent with the professional nature of investment counsel services.

*V. Confidential relationship*

All information concerning the security holdings and financial circumstances of clients should be held in strict confidence by the firm and its personnel.

AGREEMENT OF ADHERENCE TO CODE OF PROFESSIONAL PRACTICE BY CANDIDATES FOR MEMBERSHIP IN THE INVESTMENT COUNSEL ASSOCIATION OF AMERICA

I hereby subscribe, and agree to be responsible for the strict adherence by the partnership or corporation with which I am connected, to the foregoing Code of Professional Practice.

Dated: -----, 193--

	----- Name -----
	----- Address -----
Partner of Principal Officer in:	
(Cross out words not applicable)	
	----- Name of partnership or corporation -----
	----- Address -----

CODE OF PROFESSIONAL PRACTICE AND AGREEMENT OF ADHERENCE THERETO  
BY NON-MEMBER EXECUTIVES AND EMPLOYEES, AUGUST 1937CODE OF PROFESSIONAL PRACTICE ADOPTED BY THE INVESTMENT COUNSEL ASSO-  
CIATION OF AMERICA

WHEREAS, the profession of investment counsel came into being to meet a growing need for a type of competent and unprejudiced services not otherwise rendered; and

WHEREAS, experience in the rendering of investment counsel services has established certain basic principles of responsibility and conduct requisite to sound professional practice; and

WHEREAS, these basic principles must be accepted and maintained if the investing public is to be assured of the standard of investment counsel services to which it is entitled;

Now, THEREFORE, WE, the subscribers to this Code of Professional Practice,

Do DECLARE the following principles to guide all those who profess to render investment counsel services;

Do PLEDGE ourselves and our organizations to adhere to these principles; and

Do AGREE, through proper Articles of Association, to enforce such adherence by all subscribing members:

*I. Definition and limitation of functions*

It is the function of the profession of investment counsel to render to clients on a personal basis competent, unbiased, and continuous advice regarding the sound management of their investments. An investment counsel firm should devote its time exclusively to the performance of this function and services incidental thereto; it should not engage in the business of security merchandising, brokerage, banking, the publication of financial services, or acting as custodian of the securities or funds of clients; and neither the firm nor any partner, executive or employee thereof should directly or indirectly engage in any activity which may jeopardize the firm's ability to render unbiased investment advice.

*II. Competence and responsibility*

To serve its clientele effectively and continuously an investment counsel firm should include at least two responsible partners or principal executives of demonstrated investment ability and unquestioned integrity; it should be supported by a competent staff of experienced assistants; and it should maintain adequate capital and reserves at all times.

*III. Compensation for services*

Compensation of an investment counsel firm should consist exclusively of direct charges to clients for services rendered, and should not be contingent upon profits, upon the number or value of transactions executed, nor upon the maintenance of any minimum income.

*IV. Solicitation of new clients*

The methods employed, and all written or oral statements made, by an investment counsel firm in securing new clients should conform to standards consistent with the professional nature of investment counsel services.

*V. Confidential relationship*

All information concerning the security holdings and financial circumstances of clients should be held in strict confidence by the firm and its personnel.

(NOTE.—The above Code is signed by all members of the Investment Counsel Association of America as a condition precedent to membership therein.)

AGREEMENT OF ADHERENCE TO CODE OF PROFESSIONAL PRACTICE BY EXECUTIVES  
AND EMPLOYEES OF MEMBER FIRMS OF THE INVESTMENT COUNSEL ASSOCIATION  
OF AMERICA

Recognizing the professional character of the relationship between investment counsel and clients and the fundamental requirement of an unprejudiced approach

to their problems; and being aware of the jeopardy in which the interests of the firm and its clients may be placed through any violation by me of the principles set forth in the Code of Professional Practice of the Investment Counsel Association of America, which I have read with care, I hereby agree that so long as I continue to be associated with the firm of..... and such firm is entitled to describe itself as "Members Investment Counsel Association of America," I shall adhere strictly to all of the provisions set forth in this Code of Professional Practice.

This agreement embodying the Code of Professional Practice of the Investment Counsel Association of America is being executed in triplicate, one copy to be forwarded to the Secretary of the Investment Counsel Association of America, one copy to be retained by the firm of..... and one copy to be retained by me.

(Signed).....  
Employee

Approved by.....  
Partner or principal officer

Dated:....., 193..

Mr. ROSE. I should like to pass out to you gentlemen copies of these forms, at this time, if I may; and I should be glad to comment upon them. I shall not burden you by going through it in detail.

Senator WAGNER. Do you inquire of the man's past, at all?

Mr. ROSE. We do, sir.

First, you see, this is divided into two parts.

Senator WAGNER. I see.

Mr. ROSE. All of this information on the first page of part 1 refers to the name of the applicant, his background, his club and association memberships, his published writings, articles, books, and so forth.

On the back of that page you see we require all of his former business affiliations and all of his present affiliations.

However, the major part of the application is contained in part 2, which requires information concerning the firm of the applicant; and, of course, it also applies to the individual partners of the firm.

Senator WAGNER. I was just wondering how far you went into his past. You ask about his business; and I suppose that would include whether in the past he had been in difficulty?

Mr. ROSE. Of course, Mr. Chairman, we know you can never find out much about character by a questionnaire.

Senator WAGNER. No; except if he has ever been convicted of a crime, that might mean something, don't you think so?

Mr. ROSE. Do you mean to ask him the question?

Senator WAGNER. Yes.

Mr. ROSE. We believe we go into the matter much more thoroughly.

Senator WAGNER. You think you can get that, anyway?

Mr. ROSE. We think we go much beyond that.

Senator WAGNER. Yes. All right.

Mr. ROSE. The first part of this is concerned with the history of the firm. I shall not go into the details here. It is the usual sort of information.

Senator WAGNER. Yes; I see it is a quite detailed inquiry.

Mr. ROSE. I think you will find it is, sir.

Item 6: If the firm is a corporation, it is required to state the total amount of stock authorized and outstanding; and under (b) it is required to furnish the name and address of each officer, each director, and each stockholder owning 10 percent or more of any class of the

stock of the corporation, together with a statement of the number of shares held by each at the date of the application.

Item 7: If the firm is a partnership, they are required to furnish the name and address of each partner, designating whether a special, limited, or full partner, and giving the percentage ownership of each; in other words, the full ownership.

Senator WAGNER. I think you need not go into it any further; but the committee will go into it fully; you can rely on that. It is a very careful committee.

Mr. ROSE. Of course.

I should like to refer specially to items 15 and 16, with respect to the percentage of the number of clients retained by the firm on different dates. That has been the most effective means we have yet discovered of determining whether or not an investment counsel firm has been conducting its affairs in the public interest. If the clients of that firm stay with that firm over a period of 5 years, that is the best indication we have.

Furthermore, since each firm is required to answer this questionnaire annually, and if any new development comes into the picture, the minute a firm begins to lose clients, we will become curious. That is the best indication we have had with respect to whether or not something may be wrong with the firm.

Of course, the fact that a firm did lose clients would not necessarily mean that something was wrong; but it would make us suspicious.

A special committee for the study of investment counsel qualifications, consisting of six members and including three qualified men not engaged in the practice of investment counsel, was appointed by the association in January 1939, to investigate and report its recommendations with respect to: first, the specific nature of the "technical training and practical investment experience" which should be required for eligibility to membership in the association; second, the "information" specifically to be "required regarding the applicant's firm" in order that his eligibility might be determined; third, the character of "oral and written examinations to demonstrate competence" of applicants; fourth, whether any further requirements in the public interest should be added to those already imposed; and fifth, a feasible plan whereby the recommendations of this special committee might be satisfactorily adjusted to the gradual evolution of the profession.

The members of this committee not engaged in the practice of investment counsel were Ernest Angell, former regional administrator of the Securities and Exchange Commission at New York; Rudolf P. Berle, of the law firm of Berle & Berle; and Ordway Tead, chairman of the Board of Higher Education of New York.

After considerable investigation and study of the problem, this special committee's report, consisting of some 47 pages, was submitted to the Board of Governors under date of July 31, 1939. The Board of Governors was in unanimous agreement with the general findings and recommendations contained in this thoroughgoing and valuable report. Some of the recommendations have already been adopted and the others are under consideration. I shall, a little later, comment on one or two of these recommendations; and I shall leave copies of that report with you.

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Another step in the work of the committee has been in connection with a general plan of public education which has been embarked upon, which up to the present time has been relatively limited in scope of operations. This plan has, however, embraced the distribution of approximately 60,000 copies of the code of professional practice, which I just read to you, to banks, investment dealers and brokers, business schools and colleges, better business bureaus, State and Federal Government officials, financial writers, and investors.

It has included a distribution of approximately 7,800 copies of the 1938 and 1939 Investment Counsel Annuals, which publications contain such articles as Some Potential Responsibilities of the Investment Counsel Profession, by Ernest Angell; A Persistent Delusion, which is a 34 page thesis to demonstrate the futility of "stock market guessing," by Henry W. Dunn, professor of finance at Harvard University; The Function of Investment Counsel in a Changing Economy, by David Friday, president of the National Bureau of Economic Research; and a comparative study of Stock Ownership by Managements of Leading United States Corporations, by Brevoort Stout. As I previously told you, the 1938 Annual included a complete transcript of the public hearing of investment counsel firms before the Securities and Exchange Commission, in February 1938; and the 1939 Investment Counsel Annual contained a complete report of the special committee for the study of investment counsel qualifications.

News releases have been distributed for public education on all of these articles and reports, and on many others prepared under the auspices of the association. Such educational material has in this way had a wide distribution through the newspapers.

A fifth step in our work has been this:

Either prior to or following adoption of the association's code of professional practice, every member firm included in the original membership has found it necessary to make some changes in its organization or procedure in order to comply strictly with the provisions of that code—*every firm*. The inability of one or two member firms immediately to readjust certain of their practices that appeared to be in violation of a strict and technical interpretation of the association's constitution and code of professional practice, has, at the request of such members, resulted in the convening of the board of governors as a trial board and the placing of such firms on "conditional" membership until these minor technical infractions could be corrected.

It should furthermore be pointed out that many non-member investment counsel have informed the association that they have already, or are in process of, readjusting their practices to conform with the provisions of the association's code.

The last item:

After 3 years' practical experience in operation with the nucleus of a relatively small membership, and supported by the recommendation of the special committee for the study of investment counsel qualifications, the association has recently been taking active measures to expand its membership.

The purpose in presenting to you this historical background of the Investment Counsel Association, whose membership is currently undergoing considerable expansion, is to emphasize that investment counsel, themselves, have recognized the ultimate need for some