

Investment Bankers Code Committee

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OFFICE OF MANAGING DIRECTOR
1010 VERMONT AVENUE
WASHINGTON
D. C.

24 September 1935

PRIVATE AND STRICTLY CONFIDENTIAL

To all Members of the Code Committee:

The former members of the Code Committee have been requested by the S.E.C. to serve as a Conference or Consulting Committee to the Commission for the purposes set forth in their official draft of a proposed letter, copy of which is enclosed herewith as Exhibit "A".

We are enclosing copies of the correspondence which preceded this letter together with the form of proposed publicity release by the Commission. (Exhibits "B", "C", "D").

This correspondence which seems to fully cover the situation and the plan suggested therein are submitted to you for your consideration.

Members of the Code Committee familiar with the discussions with the S.E.C. advocate prompt and favorable action. We are, therefore, asking you to express by telegraphic vote your approval or disapproval of the proposed plan. If the vote is favorable the letters will be formally exchanged and the statement released by the S.E.C. and a meeting of the members of the Committee will be promptly called.

Very truly yours,

Frank L. Scheffey
Acting Director

FLS:S

Draft of letter officially submitted by Mr. Joseph P. Kennedy on behalf of the Securities and Exchange Commission.

Dear Mr. Griswold:

I beg to acknowledge your letter of September 19.

Originally we discussed with former members of the Code Committee a project of bringing about fair practices among investment bankers and eliminating fraud in the selling of securities, because that committee was widely representative of the investment banking business and because it had already demonstrated its public viewpoint and its willingness to work to achieve its avowed objectives. It is the continuance of a group of this character organized, not as a governmental agency, but having a certain status as the result of our recognition of it as the agency for communication and cooperation with the investment bankers, that was the hope of my letter to you of September 12. Consequently, pending the consideration of plans for permanent organization, the Commission would be glad to recognize this committee as a consultive or conference committee to further the aims set forth in our previous correspondence. These objectives may be briefly summed up as follows:

(1) To be a medium for presenting the views of the investment bankers of the country on the current problems of the day, not as an agent to make special pleas in behalf of its numerous principals, but as a group who, because of their experience and ability in this field, can be deemed to be trusted by the assenting investment bankers to express the public interest viewpoint as seen by them and to have judgments upon the ways and means by which common hopes can be translated into the realities of achievement.

(2) To set up regional or sub-committees which would conduct hearings on complaints of unfair practices (of the type which do not call for reference directly to state or federal authorities) arising between or against investment bankers who have assented to the supervision of the committee and to report the result of such hearings to the Commission.

(3) To be a center for continuing study of the problems relating to the investment banking business so as to be prepared to deal with such new problems of regulation and organization as may present themselves for solution.

Faithfully yours,

19th September 1935

Hon. Joseph P. Kennedy, Chairman
Securities and Exchange Commission,
Washington, D. C.

Dear Mr. Kennedy:

Your letter of September 12 was presented at our meeting in New York on September 13 and was considered in conjunction with a verbal report of our conference of September 12 in your office.

After thorough discussion, the former members of the Code Committee present unanimously agreed that the program as outlined in your letter would be highly desirable from the point of view of the public and the industry.

In the opinion of the Committee the effectiveness of such a plan will depend upon the extent to which the Committee truly represents the business and the relationship of the Committee to your Commission.

The creation of another organization, or even a Committee, whose obligation to its members is to advocate or oppose laws or regulations to the sole advantage of investment bankers will serve no useful purpose.

We understand, however, that your objective is to have a representative body to whom you can turn for conferences and consultation concerning problems affecting a business with which this body is familiar, but it should be a Committee which will have the viewpoint of the public interest as well as the investment bankers in planning to promote fair practice and the elimination of fraud.

We assume that you have discussed this project with the former members of the Code Committee to assist in this respect because of the fact that they are most widely representative of the investment banking business, from the standpoint not only of some 3,000 members formerly represented by the Committee but from the standpoint of sectional representation as well; and this seems to us to be correct, for in order to best serve the purposes discussed it will be necessary for the Committee to have the moral and financial support of a very large number of investment bankers.

We could not ask investment bankers to support such a plan if the Committee were to be merely another organization created for promotional purposes. The purpose of its creation must be definite and the public need for it shown.

For this reason it appeared to all members of our Committee present that it was necessary to request you to add to your earlier letter a statement to the effect that, pending the consideration of plans for a permanent organization, official recognition of the functions of the Committee would be made by the Securities and Exchange Commission.

It would of course be clearly stated that the Committee would possess no governmental or quasi-governmental authority whatever but would serve as a Committee, representative of the business, to confer with the Securities and Exchange Commission on matters of importance to the public affecting the investment industry,

and to discuss the possibility of the formation of a plan for a more permanent organization to co-operate in the suppression of fraud and the promotion of fair practices.

Such a Committee could be designated by you as a "Conference" or "Consultation" Committee, or by such other term as you might deem advisable or desirable. This recognition of the need for such a Committee as outlined in your letter would meet with prompt response on the part of the industry and would place the Committee in a position to go to the investment bankers of the country and ask for their approval or disapproval of the proposed action. If substantial approval were obtained, the financial support of those in accord would follow:

While we believe the details of any such program as outlined in your letter can best be worked out in conference, it may be desirable, from the standpoint of later explaining our ideas to the industry itself, that we suggest to you for consideration a more specific statement of program. The duties of the Committee, broadly speaking, would be:

- (1) To advise with the Commission as to current problems, serving as a medium through which the opinions of a large body of investment houses would be placed before the Commission together with the viewpoint of the Committee itself on these problems.
- (2) Under the guidance of the Commission, to set up Regional Committees or sub-committees which, under the supervision of the main Committee, would conduct preliminary hearings on complaints of unfair practices arising between investment bankers who are consenting members of the group and who assent to the supervision of the Committee.

The Committee would of course submit all reports of the results of preliminary hearings to your Commission. It should be understood, of course, that no questions involving acts properly referable to State or District Attorneys would be referred to the Committee.

I think it is important that I should again emphasize that our present organization is a skeleton organization, that we are without funds available for the purposes suggested, that the effectiveness of the suggestion with relation to hearings will depend upon the amount of financial support given the Committee by the industry and that at least in the preliminary stages it would be desirable that only typical complaints or such complaints as we have the funds and personnel to handle should be submitted to the Committee; otherwise, the plan itself is not likely to work to our or your satisfaction.

- (3) To confer with your Commission concerning problems set forth in the last paragraph of your letter.

The opinion expressed by the members of our Committee at the meeting was that the dealers of the country if clearly informed of the purpose and scope of your letter would give hearty support to this program, if the Committee duties were made clear to them as has been suggested. We might then look forward to a very large membership.

Upon receipt of your approval and the official announcement of the plan, we shall be glad to proceed immediately to work out details of the program outlined above, in co-operation with the Commission.

Very truly yours,

B. Howell Griswold, Jr.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C.

September 12, 1935.

My dear Mr. Griswold:

Allow me to restate in brief fashion the conclusions arrived at in the conference held this morning between members of the old investment Bankers Code Committee and members of the Securities & Exchange Commission.

There seems to be no question in the minds of the Commission as to the utility of an organization representing a large number of investment dealers in this country. This organization, erected upon an appropriate basis, and representing the largest possible number of those in the business, could have a distinct value in several different directions, and would be welcomed by the Commission.

In the first place, it could be a most effective means whereby the dealers of this country could present their points of view upon the numerous questions that are now pending and will be pending in this field to this Commission, thereby permitting the Commission rapidly and accurately to grasp the attitude of the dealers as a whole towards pending questions.

A second function of such an organization revolves about the creation within that organization of appropriate disciplinary and arbitral machinery. In the event that such machinery were created the Commission would rely upon it to handle complaints arising from the public and within the industry. The Commission would look forward to cooperating with the national and regional committees in much the same manner in which it now deals with the business conduct committees of the exchanges. This type of an organization would seem, from the standpoint of the dealers, to have the value of providing for an adjustment of difficulties within the industry itself under the direct supervision of the Commission. It is, of course, to the interest of every one concerned that as much of the necessary discipline that is to be imposed should be self-imposed.

In the third place, it seems likely, as understanding and knowledge of our security markets advances, that legislation altering or expanding the present scope of control over these markets will become necessary. It is, of course, desirable that the industry as a whole should be thinking and planning with reference to possibilities of this type. An organization such as is proposed would seem to be an appropriate mechanism for that type of continuous study and effort necessary in order that problems of this nature be solved to the satisfaction of all parties concerned.

Sincerely yours,

Mr. B. Howell Griswold, Jr., Chairman,
Investment Bankers Code Committee,
Washington, D. C.

Joseph P. Kennedy,
Chairman.

MEMORANDUM OF NEWS RELEASE BY S.E.C.

The members of the former Investment Bankers Code Committee composed of 21 investment bankers selected by investment bankers during the days of the Code as representative of all sections of the country and all classes of dealers have been asked by the S.E.C. to act as a consultative or conference committee to cooperate with the Commission for the suppression of fraud and the promotion of fair practices and to assist the Commission by being a medium for the presentation of the viewpoint of the investment bankers on the current problems of the day.

The new Committee will be requested by the S.E.C. to conduct preliminary hearings (through sub-committees or otherwise) of certain complaints of unfair practices between and against consenting investment bankers who accept the supervision of the Committee. It is hoped that these committees will exercise functions akin to those exercised by business conduct committees of exchanges. In cases of complaints which do not require direct reference to either state or federal authorities an investment banker will have the opportunity to have a preliminary hearing in his own locality before men familiar with the customs and practices of investment banking and competent to make recommendations to the Commission.

The S.E.C. will also confer with the new Conference Committee upon the desirability of developing plans for a permanent organization of a self-regulatory, self-disciplining body of investment bankers with a view to cooperation with the Government for the elimination of fraud and the promotion of fair practices.

During the past summer an inquiry was sent to some 3200 investment bankers registered under the former Code, asking if they desired to support an organization formed for the above purposes. A majority replied and replies received show that of those who voted over 90% favored such action and offered to support such an organization.

Now that the S.E.C. has acted the Committee will organize investment bankers and form them into an organization for the purposes cited.

The new Conference Committee of the S.E.C. is composed of the following:

B. Howell Griswold, Jr., Chairman, Southeastern District; Francis A. Bonner, Vice-Chairman, Central States District; Frank L. Scheffey, Director, Washington, D. C.; Arthur H. Bosworth, Rocky Mountain District; George W. Bovenizer, New York District; Sydney P. Clark, Pennsylvania District; Edward J. Costigan, Mississippi Valley District; Ralph T. Crane, New York District; Harry S. Grande, Pacific Northwest District; Edward H. Hilliard, Mississippi Valley District; W. Hubert Kennedy, Minnesota District; Lamartine V. Lamar, Southern District; Lawrence H. Marks, New York District; Frank McNair, Central States District; Robert H. Moulton, California District; Daniel W. Myers, Ohio District; Joseph R. Swan, New York District; Henry B. Tompkins, Southern District; Frank Weeden, California District; Sidney J. Weinberg, New York District; George Whitney, New York District; Orrin G. Wood, New England District.