MINUTES OF MEETING OF EXECUTIVE COMMITTEE
NEW YORK CITY
June 30, 1936

Present: Messrs. B. Howell Griswold, Jr., Chairman, presiding
Sydney P. Clark
Ralph T. Crane

Also: Oliver J. Troster
George Whitney
Murray Hanson, of Counsel
Frank L. Scheffey, Dir., Acting Secretary

1 - Mr. Griswold briefly reviewed the developments since the previous meeting which resulted in his presenting to Mr. Landis, Chairman of the Securities and Exchange Commission, the letter accepting in principle the program for a permanent organization, as outlined in Mr. Landis' statement of March 27. This letter had been unanimously approved by all members of the National Committee.

2 - Mr. Griswold then read an acknowledgment of his letter from Mr. Landis in which was embodied a list of subjects on which the Commission wishes to confer with the Committee. (A copy of Mr. Landis' statement, Mr. Griswold's reply, and Mr. Landis' acknowledgment are made part of these minutes as Exhibits A, B, and C.)

3 - Mr. Griswold announced the appointment of Mr. Ralph T. Crane as Chairman of a special "Campaign Committee"; the other members being Messrs. Orrin G. Wood and Sydney P. Clark. This Committee will promote the organization which is to be known as Investment Bankers Conference, Inc.

4 - On motion duly made and seconded, the Chairman was authorized to employ Mr. Wallace H. Fulton as Director in the Washington office; Mr. Scheffey to act as Co-Director in New York.

5 - On motion duly made and seconded, payment of Vouchers No. 92 to No. 101 inclusive, drawn from May 12, 1936 to June 30, 1936 inclusive, was approved.

6 - There being no further business, the meeting adjourned.

FRANK L. SCHEFFEY
Acting Secretary

(Exhibit A)

STATEMENT OF THE CHAIRMAN OF THE SECURITIES AND EXCHANGE COMMISSION TO THE MEMBERS OF THE SPECIAL COMMITTEE FOR PERMANENT PLAN OF THE INVESTMENT BANKERS CONFERENCE COMMITTEE

I

This Commission during the past eight months has enjoyed the cooperation of the Investment Bankers Conference Committee, with results which we believe to have been beneficial to the public and to investment bankers and dealers.

As a channel for obtaining the views of the investment bankers and dealers, and in many other ways, the arrangement made with your Committee some months ago has proved helpful in the consideration of our many problems. We therefore naturally desire to maintain and to strengthen the connection along lines already agreed upon.

The Commission has before it and has examined with care a proposed constitution for the Investment BankersConference. I wish to discuss briefly the interest of the Commission in the formation of an organization such as that which is projected; to indicate the place which we believe such an organization ultimately should occupy in the financial life of the country; and to point out the benefits which, in our opinion, will accrue to the investing public and to the brokers and dealers throughout the country from the development of such an organization along proper lines.

At the outset of this discussion a distinction should be drawn between, on the one hand, the ideal concept of the organization when it shall have achieved maturity and established a tradition and, on the other, the situation which necessarily exists at the inception of such an organization, faced as it must be with all the practical problems

of organization and development.

Ideally, we believe that such an organization of investment bankers and brokers and dealers in securities should have the following characteristics:

1. It should be open to every member of the industry who has not disqualified himself by conduct clearly inconsistent with what reasonable men regard as fair and honest trade practice.

2. Its form of organization should be such as to command the confidence of the industry, and it should be adequately representative of the membership.

3. Its rules of fair practice should be designed to remove such impediments to a free and open market as may be found to exist and to facilitate the competitive process by elevating the plane upon which it is conducted. In this connection an analogy is found in the function performed by leading securities exchanges in the supervision of the business conduct of their members.

4. It should provide a channel for a frank and frequent exchange of views between the Commission and representatives of the industry on problems of common interest in order that there may be mutual cooperation between the Commission and the organization in the solution of their respective problems.

When such an organization as is contemplated shall have achieved these characteristics, it will probably be necessary for its position in relation to the Commission and to other elements in the financial structure to become more clearly defined as a matter of law. As is now the case with national securities exchanges, it seems reasonable to look forward to the time when suitable organizations of over-the-counter brokers and dealers should enjoy a recognized posi-

tion in the field of self-government subject to reasonable administrative control.

Should such an organization as is projected by the Investment Bankers Conference Committee succeed, with the substantial support of the industry which it represents, in progressing along the lines indicated, we believe that its potentiality for good in the financial life of the country is very great indeed.

II

It is recognized that there are two obstacles to the immediate realization of this ideal type of organization. The first is the fact that the formation and development of the organization lie ahead of it. While it is solving the problems inherent in the formation of a new organization, enlisting the continued support of its industry and establishing itself on a permanent footing, the energies of the group cannot well be diverted from these problems to the larger work to which they should ultimately be directed. I do not mean by this to suggest that the activities of the Conference Committee and its contacts with the Commission as they have been developed over the past eight months should be discontinued until the new organization has taken shape. On the contrary, I should be hopeful that they might be increased without interfering with or impeding the promotion of the new organization. Our conferences with members of the Committee have been valuable, not only as a means of securing information, but also of obtaining the point of view of those experienced in the various branches of the securities business. The second obstacle is that the establishment of a permanent and clearly defined relationship between the new organization and the Commission must in fact, as well as in law, await the comple-

tion of the organization phase of the life of the Conference. It is the Commission's belief that at the inception of this project, the Investment Bankers Conference Committee should enjoy a wide latitude in attempting to ascertain pragmatically what structual form of organization is best adapted to the purposes in mind and is most likely to command the support of the industry. The Commission is disposed during the early stages of the development of the Investment Bankers Conference to adopt, as its formal position, an attitude of friendly cooperation, and to refrain from attempting to exercise official supervision over the plans which are formulated at this time for perfecting an organization. We believe that when the organization has taken form and the lines of its probable development have been ascertained, any weaknesses which may exist in the original structure will manifest themselves and the exact nature of the relationship which should exist between the organization and the Commission will become readily apparent. Only then will it be possible to ascertain with definiteness to what extent the projected organization should be subject to administrative regulation by the Commission under a specific law rather than to the provision of the general law applicable to all business.

III

It has been asked whether, during the formative period of its existence, the Investment Bankers Conference, without enabling legislation, can begin to achieve vitality and effectiveness through the initiation of activities consistent with its ultimate objectives. The answer to this question is fundamental and must be arrived at by you gentlemen. For our part we feel, as I have already indicated, that it would be inadvisable to seek through legislation to clarify the legal position of the Conference in advance of its coming into being and shaping the course of its probable development. We are further of the

opinion that under existing law a thoroughly constructive work can be undertaken by the proposed organization almost from the time of its inception.

At the outset, a cooperative effort could be undertaken to improve the channel of communication which already has been established between the Commission and the Investment Bankers Conference Committee for the exchange of ideas. In accordance with its already well-established policy, the Commission would be interested in obtaining the opinions and suggestions of the new organization relating to the formulation of policies, the drafting of rules and regulations, and various subjects being studied by the Commission's staff. Similarly, appropriate members of the staff of the Commission, when their services ~~might~~ might be desired, would be available to assist the Conference in the interpretation of Commission policy and to cooperate with it in dealing with practical problems of mutual concern. Through such cooperation the new organization should be enabled almost immediately to render valuable service to its member firms by keeping them informed of the activities of the Commission and by acquainting the Commission with the views and problems of such members. It should likewise be possible for the Conference very quickly to establish a desirable relationship with the regulatory bodies in the several states.

In the work of establishing just and equitable principles of trade and of improving standards of business conduct, a program patterned perhaps after that of leading national securities exchanges could be inaugurated. Principles of just and equitable dealing could be adopted and the work of the standardization of certain business practices undertaken.

Methods could be adopted for cooperation between the Commission and the new organization in the suppression of fraud in the security business. Such cooperation on the part of your new organization and its Regional Committees should be of great assistance to the Commission in its work of safeguarding investors against fraud and should do much to eliminate the dishonest competition with which at present legitimate brokers and dealers are forced to contend.

Again after the pattern of securities exchanges, it should be possible to establish an arbitral machinery designed to settle controversies arising between members of the Conference and perhaps between members and their customers. The natural result of such a development might well be the reference by the Commission to the Conference of suitable types of complaints, not involving violations of law, received by the Commission against member firms.

I have mentioned only a few of the broader fields of activity in which it seems to us that the projected organization could very quickly commence operation of great benefit both to its members and to the investing public. Additions to this list will, I am sure, occur to you all, and it is reasonable to expect that as the organization made progress, the scope of its activities would broaden correspondingly.

IV

The Commission believes that the public interest would be served by the formation of such an organization as we have been discussing. It is our belief that the successful development of such an organization would be of great value to investment bankers and security dealers throughout the country. We believe that much can be done at once toward the establishment of such an organization and that with much of the foundation already laid by the Investment Bankers Code and

the Investment Bankers Conference Committee, it is our belief that the work of organization on a national scale could proceed rapidly. During such organization period, as I have stated, the official attitude of the Commission would be one of friendly cooperation. At such time as a reasonable measure of development toward realization of the objectives outlined above should have been achieved, the Commission would stand ready to consider reasonable proposals for overcoming such legal and practical obstacles as might be found to impede the progress of the organization toward becoming a thoroughly effective force for good in the financial life of the nation. The initiative, however, must obviously be taken by the investment bankers and dealers themselves. We shall be interested to learn the decision of the Investment Bankers Conference Committee as to whether it believes it can proceed along the lines which seem to us to be indicated.

(Exhibit B)

Hon. James M. Landis, Chairman
Securities and Exchange Commission
Washington, D. C.

Dear Mr. Landis:

We have read with interest and care the statement which you made to the members of our Permanent Plan Committee at their last meeting with you in Washington, and we want to express our appreciation not only of the spirit in which this statement was made but of your and the Commission's continued courtesy and helpfulness in all of these matters.

At the very outset, we want to assure you that we entirely concur in your judgment that the cooperative efforts of the Committee and the Commission during the past eight months have been productive of results of great benefit to the public and to the investment bankers and dealers of the country, and that we, too, strongly desire to continue and to strengthen this cooperative endeavor.

With regard to the permanent plan of organization for the Conference, we think you have rightly and wisely drawn a distinction between the ideal concept of such an organization and its practical possibilities during the period of its organization and development. We, of course, believe that such an organization as is proposed should from the very outset have all the characteristics which you enumerate and we think they are all adequately provided for under the present plan. It is true also that the proposed organization could embark almost at once upon many of the constructive activities which you suggest, all of which would be of substantial present value to the members of the Conference

and to the public. That there will be many difficulties and obstacles to overcome, however, before such an organization shall have reached maturity and shall have accomplished everything that both you and we expect of it is obvious. One of its ultimate objectives, of course, is effective self-regulation in the interest of both the public and the industry. We believe that, in the words of former Chairman Mr. Joseph P. Kennedy, "It is, of course, to the interest of everyone concerned that as much of the necessary discipline that is to be imposed should be self-imposed." Our plan is accordingly addressed to that end. We believe, however, that experience may very well demonstrate that completely effective self-regulation will not be possible without the inauguration of a registration system similar to that in use under the Code, as to which there are obvious legal and practical difficulties. However, that may be, we feel with you that those problems can be met when they arise and perhaps can best be met in the light of experience gained in the interim. Even though completely effective self-regulation may not be one of the practical possibilities of the Conference during its formative period, we are convinced that much can be done at once, and we are prepared to go forward and test the practical aspects of such an organization under existing conditions, and shall hope to be able to consult freely with the Commission as we progress.

Very truly yours,

INVESTMENT BANKERS CONFERENCE COMMITTEE

B. Howell Griswold, Jr.,

Chairman

C O P Y (Exhibit C)

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON

Office of the Chairman June 29, 1936.

Dear Mr. Griswold:

This will acknowledge your letter of June 29, 1936. I am happy to learn that the Investment Bankers Conference Committee intends to go forward with plans for a permanent organization in accordance with the general conception outlined in our correspondence.

The Commission's staff now has under consideration a number of problems in regard to which we shall be glad to receive suggestions from, and to confer with, your Committee. These are:

(1) Prospectuses. Suggestions for shortening, improvement of content and form, requirements for delivery, etc.

(2) Registration of Securities. Suggestions for improving regulations and forms, eliminating duplication of information, etc.

(3) "Beating the gun."

(4) Methods for preventing violations of the Securities Act of 1933 and the Securities Exchange Act of 1934 by salesmen and trading employees.

(5) Standards for determining adequate distribution and adequate activity in connection with unlisted trading upon exchanges.

(6) Devices and contrivances in connection with the purchase and sale of securities over-the-counter which should be prohibited as manipulative and fraudulent, and methods for making such control effective.

There are, in addition, certain problems which, although not at present under active consideration, are of interest to the Commission, in regard to which we should likewise be glad to receive your suggestions. Some of these are:

(1) The desirability and practicability of efforts by the Commission, or by an appropriate organization of investment bankers and dealers, to

perfect a mechanism of publicity for purchases and sales in the over-the-counter markets by registered brokers and dealers.

(2) Methods of eliminating nominal or fictitious quotations, and control of wide spreads between bid and asked prices of securities traded in over-the-counter.

(3) The standardization and simplification of trust indentures in connection with securities issued by public utility holding companies and public utility operating companies; and other rules and regulations relating to public utility companies.

(4) Development of reporting system for inventory of unsold securities in the hands of security dealers.

(5) Advisability of permitting on offering sheets such additional information as ratings by statistical organizations, etc. Control of market letters, circulars, and other literature.

(6) Control of registered brokers and dealers who carry customers on margin.

(7) Requirements for the segregation of securities and funds held in trust and segregation of capital employed in brokerage business from capital employed in dealer and underwriter activities.

I should likewise like to call your attention to the pending program for administering the provisions of the recent amendments to the Securities Exchange Act of 1934 (Public No. 621, enacted on May 27, 1936), relating to the registration of over-the-counter brokers and dealers and to unlisted trading upon exchanges. I think that it would be desirable for your Committee to endeavor to keep its membership currently advised of all hearings which may take place in connection with this program.

Sincerely yours,

James M. Landis
Chairman

Mr. B. Howell Griswold, Jr.,
Chairman, Investment
Bankers Conference Committee,
c/o Alex. Brown & Sons,
Baltimore, Maryland.