SEC Historical Society
Interview with Lawrence Greene
Conducted by Kurt Hohenstein, on July 7, 2005
in Atlanta, Georgia

KH: This is Kurt Hohenstein and I'm a Professor of History and curator for the SEC Historical Society museum. We're here in the home of Lawrence Greene in Atlanta, Georgia and we're doing an interview on July 7, 2005 at approximately 1:25 p.m. I'm going to talk with Mr. Greene about his recollections and impressions on is his life, his experiences, his career at the Securities and Exchange Commission—a long career there- and his experience with the securities law generally and impressions about the kinds of things that are interesting and important for the viewers of the Historical Society gallery, where this is going to be online for those people to listen and to read.

LG: Okay; this is Larry Greene. And I would like to discuss the various subjects that you asked about, particularly how I became interested in the SEC and how I got my job there and some of the highlights during my twenty-two years with the Securities and Exchange Commission.

KH: Let me ask you; when did you start with the Securities and Exchange Commission?

LG: I started in December 1938 and I was hired on a temporary basis by David Shenker, who then was the head of the Investment Trust Study, and that was the phase that the SEC was conducting at the time pursuant to the Public Utility Holding Company Act of 1935. The Study had been in existence for about two to three years at that point. The staff

started in late ’35 to get organized. In December ’38, they were near the end of the study and just about preparing drafts of reports to the Congress of their studies and their recommendations and working on a model of a bill to present to Congress.

KH: Tell me a little bit about your background.

LG: I was a graduate of CCNY in New York and New York University Law School.

KH: When did you graduate from the law school?

LG: I graduated from law school in 1933. At law school, I made *Law* Review, I became Notes Editor of the Law Review in my third year. I was offered a position with Professor Tooke—Charles Tooke of NYU, in the municipal corporation field, but I decided I would rather try to get into the practice of law.

KH: Private practice?

LG: Private practice. But it was a very difficult period. This was the height of the Depression, 1933—1934; these were years when it was difficult to get a foothold in the law. However, I was fortunate to get a temporary job with a very well known law firm in New York, Goldwater and Flynn. Flynn was the Edward Flynn who was the Democratic leader in the Bronx, and I worked there on a Section 77-B case. Now that was a

reorganization and Section 77-B amended the Bankruptcy Act to permit corporations to come out of bankruptcy and continue as a surviving corporation and business.

So that was fortunate for me because I got some experience on Section 77-B matters. Subsequently, in 1938 I believe, the Chandler Act created Chapter 10 of the Bankruptcy Act, which modified some of the provisions of Section 77-B, improved the way matters would be taken care of and provided for an independent trustee to take care of the bankruptcy.

KH: And then you say you got hired; tell me a little bit—the story—how did you get hired?

LG: By Goldwater and Flynn?

KH: Yes, by them first. And then tell me about you got hired by the folks from the SEC.

LG: I knew some of the people who worked on Section 77-B, good friends of mine, and they recommended me as a former Law Review man who would be helpful to them. I knew it was a temporary job, but then when I left the firm, I asked for a letter of recommendation for my work there, and it just happened that—well let me go back just a minute. I had taken a Civil Service Exam for lawyers; that was I think for the Federal Trade Commission. It had required some kind of a Civil Service Exam. There was a lot of

criticism at the time that they were hiring lawyers purely on the basis of politics rather than on merit. It so happens that I came out third…

KH: In your exam?

LG: In that exam; so that was some help when I went to Washington to seek employment with some of the agencies there, but it so happened that at that time—this is '38 now—the Public Works Authority was created in the Department of Interior and they needed legal assistance and I applied and I used my letter of recommendation from Goldwater and Flynn, which they found very satisfactory. So I got a job there in the summer of 1938.

KH: With the Public Works Administration?

LG: PWA of the Department of Interior, and it was very interesting. It was something novel and new.

KH: What drew you to Washington to federal service?

LG: Well, I thought that would be an easier career for me because I wasn't able to get a lot of clients in private practice, and I didn't have any industrial or corporate references, so I thought that would be one way. Also, those were the days when a job in Washington with the Internal Revenue Service or the Securities and Exchange Commission or the

Solicitor General Department was one of the highest types of legal positions that one could aspire to.

KH: Tell me a little bit about that; what do you mean? How did it get to be that way? You're talking about something that lawyers understood.

LG: That's right; and at that time if you went to Harvard Law School or Yale Law School or Columbia Law School and you came out at the top of the class and you were on Law Review or one of the other special types of classes that they had, it was a relatively easy decision for a Federal agency. It was, I think, the idea of Felix Frankfurter of Harvard, who was advising as to the legal aspects of various New Deal agencies.

One of the things that people like myself wanted to do was to participate in the New Deal policies and what they were trying to do for the country. It was a time when you wanted to see the country prosper and to get out of its economic failures and that was part of what the Public Works Authority was doing. I did a lot of brief work there and research on various bond issues that they were allocating to the different states.

KH: So your attraction to government service wasn't just that you were having some difficulty building a private practice but that you had this genuine desire to be involved in this New Deal?

LG: Oh, absolutely.

KH: And you were a graduate of New York University Law School, so you didn't have that connection?

LG: But I had so many friends from Harvard and Columbia Law School who also were with New Deal agencies at that time. I asked them for recommendations and references. I mean men like Milton Freeman of Columbia Law School and some other men from Harvard, who were friends of mine, and who were in government at the time.

KH: So this networking really made a big difference?

LG: Yes.

KH: The fact that you knew these people and they were involved and helped you get involved but you all wanted to be involved in the New Deal?

LG: That's right.

KH: This is the hot place to be as a lawyer?

LG: That's right; one of my very good friends who was with the Securities and Exchange Commission left and went to Tom Dewey's office in New York. He was a Republican, but he also had the same attitude of doing well and you remember that Dewey's program was to try to get rid of fraud and corruption in the New York City Government.

KH: Right.

LG: So it was a time when you wanted to be in on what was going on in public service. You were sort of imbued with that feeling and the people you knew, your close friends, people like Harry Heller and Marty Riger, who were then at the SEC, were friends and I knew what they were doing. I wanted to be in on that. Even though I was with the Department of Interior and had a job there with the PWA, I still wanted to be with the SEC because at that time, as I said, there were three aspects of legal work that seemed to be at the very top with the very brightest of the young lawyers.

KH: Sure.

LG: And that was the Solicitor General, IRS, and SEC. And so I tried to get into the Securities and Exchange Commission. A friend of mine also knew David Shenker and I used him as a reference, but apart from that here I was working as an attorney in the government, so it was relatively easy for David Shenker to hire me. At the same time that he took me on, he took somebody else from Philadelphia . The Investment Trust

Study then was being directed by David Shenker as Chief Counsel and L.M.C. Smith as Deputy Chief Director. I'm trying to remember his name—Lawrence Meredith Clemson Smith; he was a wonderful guy. He was from Philadelphia.

KH: And what did he do?

LG: Dave Shenker was the Director and Smith was Assistant Director and between them they split up the work. Now what they had done was they required investment trusts in the field to file statements with respect to their activities, their assets, and their corporate structure and that sort of thing. And on the basis of all the material that they received from the investment trust industry, they were able to conduct hearings. The objective of their investigation was how the investment trust operated and what were the problems in the industry. Well there were many problems.

KH: What was your responsibility with the Study?

LG: I came just about the time when they were completing all of these examinations and hearings. So I missed a lot of that fun. But I went over all the hearings and my particular area was something called Installment Investment Plans. Those were plans in which investors were induced to make part payments over a period of time. Generally they agreed to make payments over a ten-year period but the difficulty was that during the first year, at the end of the year, they didn't have much to show for their investment because

most of it was taken by fees and charges. And that was the major problem and not only that, but their money was sometimes invested in other mutual funds in which there were also fees and charges.

I have a document here which refers to my report which was eventually given to Congress, and I noticed that it points out that out of $42,000,000 invested in those installment investment plans, there remained only $25,000,000 at the end of this period of time which is about ten years.

KH: So your goal and I don't want to put words in your mouth, but tell me if I'm wrong about this, but your goal was to—and the people that were working on this before you - was to first study the problem, get information, conduct hearings…

LG: Hearings, testimony…

KH: … testimony and then come up with a solution?

LG: And then come up with reports on that and recommendations.

KH: That would go to Congress and Congress would take action to correct the problem?

LG: That's right.

KH: Okay.

LG: So we were preparing reports to Congress, starting at the end of 1938—I think the hearings were all over by then, but we worked on certain reports through 1939 and right up to the beginning of 1940. So during 1939 and that's when I did most of my work in Investment Trust Study. I prepared the draft of the report on Installment Investment Plans, and that was submitted to Congress—I have a date here of September 28, 1939.

KH: So the report that you prepared was something that the SEC submitted to Congress so that Congress could take some remedial action and correct the problem?

LG: Well, that was only an initial report on a special subject, but then I also worked on the balance of the SEC reports, helping write reports on individual examples of what was wrong and what had to be corrected. And that was what I did during that period of time. Of course when I first came in December 1938, it took me a while to become familiar with the entire subject, but soon I worked on one subject after another.

KH: But let me ask you about that because some of the stuff that we've been finding is exactly that kind of situation where a young lawyer will come into the agency; maybe he doesn't have the expertise. I mean, this is a new field; this is something that the government

hasn't regulated in the past and they've given you the problem. Here it is Mr. Greene; run with it. Is that what you found?

LG: Yes; but the people who conducted hearings, but who had left by that time, had some idea of what was wrong and so they had tentative outlines of different things.

KH: Right.

LG: Well I put the whole thing together and had a report, submitted it to the SEC—to the Commission, going through Smith and Shenker and then up to the Commission and through Judge Healy, who had been Chief Counsel of the study on utilities at the Federal Trade Commission. He was then a Commissioner of the SEC in charge of the particular subject of investment trusts and companies. And there were men at the time who—I don't know whether you want me to mention any names …

KH: Sure.

LG: I worked with great lawyers: Harry Carver for example; ElcanonIsaacs, Harry Heller, Emanuel Bublick, Joe Divine, and L.M.C. Smith.

KH: How old were you when you were doing this?

LG: I was 27 in December 1938.

KH: Were they about the same age or a little older?

LG: They were older than me.

KH: Older… but a lot of lawyers that you talk about, your friends there—were your age.

LG: A couple of them, like Milton Freeman, for example, was about my age—maybe a little older because you know I was so young when I went through law school.

KH: Right.

LG: They were close to 30.

KH: Let me ask you two questions and then I want to come back to that. We were talking about how you get a solution to a problem. I guess if you talk about it—it's going to be the attractiveness of working for the New Deal. These are agencies that did things; they were taking initiative, and you really had to become an expert in this area.

LG: Absolutely; but before you did of course, you had consultation with men like David Shenker and L.M.C. Smith, who were—at that time they had had two or three years of

hearings. They had discussions and discussions with the Commission. The Commissioners all were interested in all of the phases of what the SEC was doing; after all this was the ’33 Act and the ’34 Act and the Public Utility Holding Company Act, which took so much of their time and energy because they were doing things in those areas.

I have a book here on the 25th Anniversary of the SEC and it’s a revelation as to the amount of effort and energy that was put in to get things organized and going forward so that the financial industry itself would prosper.

KH: Okay; now tell me about that because well you said the industry itself; what was their goal? What were they trying to do?

LG: What they were trying to do was to assure that when they went to the public to get money for what they were doing, the public would be served and whatever they did was fully disclosed so that people understood what they were getting into.

KH: So companies that would offer stocks or investments or trusts or whatever it may be, you said the public was served. You’re really talking about the goal—the focus is making sure that the investors are made fully aware of everything, information before they get involved in an investment?

LG: Absolutely, and that was true of the Investment Company Act that we were working on, making sure that the people who put money in were well served.

KH: But you also said the industry. Explain that a little bit.

LG: The industry—there were several types of groups.

KH: Right.

LG: Investment trusts were of two different types. One was called a closed-end investment company where the corporation raised money to invest in the stock market, but their own stock was listed on the stock exchange and was traded. One of the principal companies that we referred to frequently was Tri-Continental—which was one of the biggest.

The other phase of the industry was the open-end companies, so-called open-end; we call them mutual funds now. Their stock was redeemable. But by that very token there were problems connected with redeemability. The mutual fund industry did not have the same kinds of problems that the closed-end companies had. The closed-end companies had problems of fraud, corruption, insider dealings. For example—in one case that we worked on, a company known as Central States Electric Corporation, which I worked on much later because it was in bankruptcy—the sponsor of that company, Harrison

Williams, would decide who was going to get the benefit of a particular investment—his own portfolio or the portfolio of Central States Electric Corporation.

The bankruptcy trustee had evidence that they actually cooked the books to enable them to create this fraud. It was an interesting sideline to the Harrison Williams incident because while he was on the stand testifying on what happened in his company, Central States Electric Corporation, he was actually then engaged in organizing an investment company located in the Bahamas where he transferred residency for obvious reasons and was probably doing the same kind of dealing that we were uncovering in the hearings before the SEC.

KH: What you're telling us is that there's always sort of two components of what the SEC was trying to do. One was—and it may not be exclusive—one was to protect investors, common ordinary investors and the strengthening of the industry and you found—and—from what you're telling me is those were really not at odds. You felt that both of them were necessary to make this work.

LG: Of course, it was so important to clean up the industry and to make sure that whatever was being offered to the public would be satisfactory. It wouldn't be insured, but at least there would be an attempt at fairness and full disclosure. There were very few closed-end companies that filed and made offerings to the public thereafter, because what the Investment Company Act did was to provide restrictions on capital structure.

For example, in order to issue debt securities there had to be a 300 percent asset coverage. In order to issue preferred stock, there had to be a 200 percent asset coverage. Many companies were in no way interested in offering their expertise as managers to the public to manage their investments which is what that amounted to. They had been getting money from investors so they could manage it properly and fairly and what we were trying to do was to make sure that it was done on a fair basis with full disclosure.

I'm just recalling something that took place in that area. Goldman Sachs Trading Corporation was one of the major closed end companies during that early period. Now I don't think there was any fraud or corruption involved in that at all and yet they lost oodles of money for the public and subsequently—it's many years later now—talking about 1960—'65 when the Dreyfus Corporation went public as a manager of mutual funds, Goldman Sachs refused to become part of the underwriting group although they were very close prior to that time. Why? Because recollections of Goldman Sachs Trading Corporation's problems so disaffected the thinking of the Goldman Sachs people at that time who were so high-minded that they didn't want to have anything to do with investment companies.

So the 1930s was a trying time for the closed-end industry. Now take the open-ended side; that was a totally different story. There—and incidentally, the SEC came out with its proposed restrictions. One of the things that the Commission at that time thought was

these mutual funds are getting so large, it's going to be impossible for them to manage that much more money. So the SEC suggested that we'd better put a cap on the amount that they could manage.

Well the fact is that when they finally negotiated with the industry to get a bill through Congress that cap was omitted and it was quite fortunate—I'll come to that when I show you some of the material I have collected here that I want to review with you—but the original bill would have prevented MIT - Massachusetts Investment Trust, which was then one of the largest of the mutual fund companies —would have prevented them from getting any larger, and I think the amount in the cap was something like $1,500,000 or maybe more than that. But what's happened since then is something that was never dreamed of.

KH: You're saying the SEC was concerned about these funds getting too big?

LG: They were getting too big.

KH: Because they couldn't…?

LG: How could they manage all this money?

KH: Was the SEC also concerned about them getting too big because perhaps they couldn't monitor or regulate them?

LG: I don't think so. They conceived of the open-ended company and as it then existed as being rather small companies, where the few major investment managers who had expertise in the stock market were running them. That attitude continued for quite a while and raised one of the issues that I want to cover in my discussion.

KH: How long do you think that attitude—you're talking about from '39 to '40…

LG: Yes.

KH: To how long do you think?

LG: Thirty-nine, well at the beginning of '40 you may recall that there were harbingers of war. The war was going on in Europe and we were getting involved and it looked like we might go in. I think we had the draft instituted at the time, so in order to get anything done, the SEC people like Dave Shenker and Smith and Judge Healy got together with leaders of the investment company industry and they closeted themselves in a hotel on K Street—near Pennsylvania Avenue.

KH: In DC?

LG: I think it was Hotel Carlyle and in about three or four weeks they hammered out a compromise bill that they could all vote for and that became the Investment Company Act of 1940 that went through. Senator Wagner of New York took over the sponsorship of the bill and since there was no opposition, it was like consent, and the bill went through, and I believe it became law sometime in April or thereabouts. I don't know the exact date. Then the SEC formed an operating division to carry out the provisions of the Investment Company Act, which required filings by the industry.

I still handled one aspect of the new act, which was the Investment Installment Plans. In order to get the bill through, the SEC had to give some Congressmen some kind of a token and so there was a provision written in that said, if the restrictions of the statute were too onerous on the so-called Investment Installment Plans or contractual plans as we called them, I don't have the statute in front of me, but it said that if it was too difficult or harsh on some operators, maybe they could get an exemption from some of the restrictions.

Now the new restrictions were primarily to assure that an investor would not be disenfranchised, would not have nothing after six months of investing and—that they wouldn't take the entire amount for fees—that the fees would be reduced; there was a maximum I think of 8 percent sales commission as the top and during the first year they couldn't get half—that they would have to split it out over a period of time. Now the fact

is of course that what they had been doing was hiring a lot of people to sell the stuff and these people would disappear and would take their fees with them and the investors would get nothing, and these were the poorest kind of people they went to—the lowest income class because payments were as little as $5 a month, $10 a month which was not reasonable to have them invest in the stock market.

KH: Who would grant that exemption you just mentioned?

LG: The SEC had the right to grant the exemption. I was given the job of opposing the applications for the exemption. I worked on that and on the forms that they had to file.

KH: So somebody would file an application for an exemption and one of the jobs you did there was to look at it.

LG: To review it and it was a combined application by about six or seven companies and then that was then presented to the Commission and I as lawyer for the division opposed it and the Commission ruled against them. There was no way they were going to get the type of charges and fees that we thought were outrageous.

KH: Because that was one of the purposes of the Act to begin with.

LG: Well the possible exemption was something like a bone thrown out to these companies but which the SEC didn't really mean to carry out.

KH: Right, what else did you do after that? What I want you to talk about if you can is a little about just sort of what it was like at the Commission. You were busy; you were working on a number of things, but did you ever have associations with people that were not at your level, other divisions?

LG: I was working very hard on the Investment Company proposals, on the reports to Congress, on the bill. A lawyer from Buffalo, John Hollands, was handling the legal stuff on the bill itself, on the structure of the proposed statute and the wording of the statute. He was an expert in that area. And I worked with him. But when it went to Congress at that point there was a hiatus and I was transferred to the Public Utility Holding Company Act Division and I worked on research briefs for the General Counsel, who was Roger Foster, who asked me to do some legal research.

So there I was out of the '40 Act and Investment Companies and working on a totally different problem—public utility holding companies, and as I recall it my work was in what the states were doing in the holding company area. So I did a lot of research on aspects of the standards they used to permit the public utilities to fix their rates for the public and I did that for a couple of months. And then when the '40 Act was finally passed, and the Investment Company Division was created under David Shenker as

Director, I went back to that Division; this time I was no longer a temporary attorney and I became a principal attorney. So I was given a bigger spot.

KH: Was that switching back and forth that you just described, as the SEC gets something and it gets sort of stalled in Congress—anyway the SEC has done their work until something else happens and they move you to another area…was that frightening? You didn't know much about public utility holding companies.

LG: No.

KH: How did you approach that?

LG: No, but I knew I was on the "in" and this was just temporary until the bill went through and I knew the bill was going to go through.

KH: So the work you had done on the Investment Company Act and you knew it was coming and you knew you were going to be heavily involved in that?

LG: Yes; I knew I was going to go back to that.

KH: Okay.

LG: So this was just extra work.

KH: Okay.

LG: You know at the time, the men we were working with were the brightest men you ever could collect. They were highly intelligent; they were so advanced in their thinking and what they wanted to cover, so that they could cover most subjects very quickly and get oriented.

KH: And that's how you found the whole agency—it was staffed by people who were really able to acclimate quickly to a new area, pick it up and move onto something else if need be?

LG: Right; for example, when the Chandler Act was enacted, it created Chapter 10, which I referred to previously and there was one man who came in to work on Chapter 10 and his name was Joseph Weiner and he had been a top lawyer in New York and represented some major companies, but then he was advisor to the SEC at that time, and I remember a conversation I had with him, which sticks in my mind because he said to me. He said, Larry, it's all very well for you guys with all your bright outlook and what you want to do, but these statutes really can be taken care of and carried out by ordinary lawyers; you don't need high-priced, highly motivated lawyers.

And I said to him, Joe, I sure don't agree with you because there are going to be so many problems that will arise that we foresaw when these statutes were being passed. And he was wrong about that. You couldn't have the SEC staffed with anyone but top grade people of all kinds, not just lawyers, but securities analysts and engineers. And you know at that time, the '33 Act of course was then going full-strong and it had been accepted by the market, by Wall Street, and what was really happening also was the desire to make sure that nothing got by that was not fully prepared and well disclosed.

A group came before Baldwin Bane who then handled the—he had been with the Federal Trade Commission and was in charge of the Securities Act of '33—the public offering sections, reviewing all the filings and any problems that would come up and he had different branches working on the filings. You know a branch would consist of a principal attorney, a junior attorney, an analyst or two analysts, and with the advice of an engineer. Well, there was a meeting before Baldwin Bane because of a gold-mining venture that was being proposed, and the engineer was giving them a very hard time before Baldwin Bane.

And Bane was giving them a difficult time about disclosure of—of what this meant and what that meant and their different tests of the results and they were sweating it out and all of a sudden there was a phone message that was handed to one of the principal lawyers and he says oh my God, Mr. Bane, we're going to withdraw the statement. They just found gold at the mine.

It was one of those incidents that showed the need for strict regulation.

KH: And what you're talking about there is what you just said is not just about the study and the recommendation to Congress and the law being passed, but the implementation which is the administration of the law the SEC was heavily involved in had to be also top notch and the quality of administration had to be top notch because all kinds of problems could come up and you had to be aware of those kinds of things.

LG: I'd like to cover a couple of the main problems that we came across when I was there. I gave you the Exemption Proposal and the fact that we opposed that. One of the provisions of the '40 Act was to require that names of investment companies be made to conform to the facts of the case; that they wouldn't be proposing something that couldn't happen. There was one company that wanted to call itself the Atomic Energy Chemicals Fund or something like that and we opposed that. I handled that case.

KH: Do you know about when this was?

LG: It must have been after the explosion.

KH: After the atomic bomb?

LG: Yeah.

KH: All right, so after the end of World War II?

LG: It was after the end and I remember there was a hearing on that and our argument was there's no such thing as any company that produces anything with atomic energy—not yet—maybe in the future, but there were other names. Now of course, Fidelity Fund would probably pass, but there were companies called Capital Growth, which I opposed but I was overruled. They said well a Capital Growth stock is well known, so I lost out on that one, but I still think to call a fund Capital Growth Fund when it's losing money is hardly an appropriate name.

KH: So it was almost like again for the investors' sake is to don't call something that may be deceptive or not true.

LG: Exactly; that was the whole point and we had to review every filing with that in mind. We had to prepare forms—but when the '40 Act was just passed and we had this new Division to organize and we had forms to prepare for filings and applications and it was so good to have people who were top notch to help in getting the job done.

KH: Let me just ask you one question about that, Larry. From the time you started until the mid-'40s, mid-'50s—you left in 1960?

LG: 1960.

KH: Tell me just a little bit about the volume and the complexity of work in the SEC. Was it just the volume that increased or was it the complexity or was the involvement of the SEC as a whole—just your recollections of how that changed over those years.

LG: Well during the war of course there was a wall. There was not much activity; much of the war effort was full-speed ahead and there wasn't much in the way of what we had to do. It was just sort of taking time out for a while. But thereafter, it really increased tremendously and it was just an in-flow of work as the economy grew; remarkably—a lot of things happened. I think work increased in general.

KH: So the volume itself increased?

LG: The volume increased.

KH: As the economy got bigger?

LG: And at about that time I was transferred to the Chapter 10 aspects, so a lot of my work was involved in the reorganizations of companies under Chapter 10 and I traveled to Pittsburgh before the Court, to Richmond before the Court. I was Principal Advisor on

Chapter 10 but the regional offices in New York, Chicago, San Francisco, where the bankruptcies under Chapter 10 were, handled the donkey work. After I left, I think Chapter 10 diminished in its position of importance, because I think they modified the Bankruptcy Act. See, by that time, the bankruptcy trustees had gotten familiar with what the SEC was trying to do to get fairness and equity and to prevent conflicts of interest. Conflicts of interest had been at the heart of the problems in reorganizations.

KH: In Chapter 10s that you dealt with?

LG: In receiverships and reorganizations before Chapter 10, and this was because—for example, a lawyer might represent a committee consisting of common stockholders and preferred stockholders and that was a conflict right there. So that was part of the job that we had to do.

KH: And what you're saying is once you did that enough times, people involved in bankruptcies would understand this was a problem, so we would avoid the problem and we wouldn't do it anymore.

LG: Exactly.

KH: So by virtue of what the SEC was doing it was changing behavior out there.

LG: At that same time we had to handle trust indenture work. There had been another statute passed—the Trust Indenture Act of 1939 - and we worked on that aspect, too. The SEC had a lot of work to do in all of these areas. I'd like to cover a couple points. There was a section in the '40 Act, which said that the SEC had the right to bring actions to prevent gross abuse of trust. Now that's like a fiduciary committing a breach of trust. The General Counsel, Chester Lane, had issued a famous report which said that—for an investment manager who was in a fiduciary position to transfer his job for compensation would involve a gross abuse of trust. The transfer of his managerial contract would be a breach of trust.

Well, years later, Sinclair Armstrong was then Chairman of the SEC at that time, in the '50s, a manager of a mutual fund, who was a very powerful political person, transferred his management contract to someone else for a consideration and got paid for it. And we found out about it and we got the approval of the Commission to bring a legal action. The Commission probably didn't pay too close attention to it and we brought the legal action for gross abuse of trust against this person.

Well all hell broke loose after that; he was a very big political power in California and he approached to the Commission and said how can you possibly let this happen? What gross abuse of trust; it's ridiculous. I was called to the Commission because I was the Assistant Director then, and Sinc Armstrong says, how could we possibly bring a gross abuse of trust against such a high-minded, ethical person as so and so in California?

And I had to explain to the Chairman that we had a General Counsel opinion to the effect that the transfer of a management contract for a consideration would be a gross abuse of trust. That's what the statute says and that's what the opinion said. Well he said, I can't understand that at all; I don't know what happened. We'll have to work something out. That's what he said.

Subsequently it is true that the Commission began to work on something because you see a management contract could also be held by a bank. Now what if a bank merges with another bank? That's a transfer of the management contract actually and it could happen in other ways, too, and I think subsequently after I left the SEC the '40 Act was amended to permit transfers of management contracts provided there were certain steps taken such as having a super majority of independent directors approve it and that the investors would be given full disclosure and approve the transfer.

KH: Do you remember what happened to this particular case?

LG: I think it was settled perhaps by his not going through with the transfer and maybe working out something else. But that was the job that we had to do despite the fact that there was politics involved, too. That was one thing that I wanted to mention to you.

KH: Did you find the agency from the beginning to the end when you were there; did you find the agency to be involved in a lot of political issues affected by politics?

LG: Not too many, but of course it was bound to happen a little bit. But we were never really in any way inhibited by politics. I handled one litigation involving a holding company that we thought was an investment company in Philadelphia and it was highly political. This guy at the head of it was a mean awful guy and the holding company had control of department stores in Philadelphia like Litts Departmetn Store and some others and I remember Judge Healy at the time referring to this guy - I hate to put this on the record, but he called him a cross between a fox and an outhouse rat. He was awful.

But I handled the case; we won the case before the Commission and they took an appeal and on the appeal our General Counsel who handled the appeal then got hold of the filing of this company in its tax return under the Internal Revenue code and it turned out that they called themselves an Investment Trust in that filing. Well their appeal collapsed at that point and we won the case. But I was so happy about that because it was one that I had worked on for a long time and I felt that they should have registered. And I don't know why they didn't but it may have been because of something that they wanted to cover up.

KH: And the registration would have made them jump through some hoops and requirements? Disclosure and things like that?

LG: Disclosure and things that they couldn't afford I suppose at that time.

KH: Okay.

LG: That was one of the great moments of my career at the Commission. You know time is passing and I would like to get to a couple of things that I wanted to present to you. I have a *New York Times* financial section article on Thursday, September 28, 1939, which describes the installment plan report.

KH: That's the one you mentioned earlier that you had worked on and presented to Congress? These are obviously some moments from your career that you were especially proud of.

LG: Exactly. The other thing I want to tell you about is this book, which was prepared by The George Washington University Law School. They had an issue in October of 1959 and it was called *A Symposium on the Securities and Exchange Commission*, and what is so great about this issue is that it has a foreward by Justice Douglas; it has an article by Jim Landis on the *Legislative History of the Securities Act* and it has other very interesting articles on the SEC and on various aspects of it. And some of it is so informative and interesting that I think you particularly as the historian and others would find it tremendously interesting. And I'd like to give this to you on a loan basis because I want to hand that down to my grandson who is a lawyer.

KH: You have written one of the articles.

LG: I wrote one of them.

KH: And you're writing about The Investment Company Act of 1940, which is the act that you worked so hard on.

LG: Now I have two other major items to cover with you. In January 1957 after almost 20 years with the SEC, I was awarded a Rockefeller Public Service Award and I have all the materials related to that award including photographs and the application itself which had to be filled out and approved by one's boss, who was then Ray Garrett, who later became a Chairman of the SEC.

And I have the actual study project that I proposed in order to get the award and I have copies of recommendations and comments to Princeton University by people like—well Ray Garrett as I mentioned, Donald Cook who became Chairman of the SEC, and Ed Hanrahan, who was then a Commissioner, then Ganson Purcell who also became a Chairman, Ralph Demmler who became Chairman, and Louis Loss who wrote the book on *Securities Regulations*.

Well the encomium I received in this is so gratifying and I would like to say though one of the items I find particularly happy to get is a letter from of all people, Sinclair Armstrong, the guy who gave me such a hard time when I had this gross abuse of trust case, and among other things he said, "during your long career with the Commission you have constantly demonstrated legal and administrative ability of the highest honor."

Well it was really wonderful to get all these letters and there are reports and newspaper clippings and I am hoping to get that photograph but I guess I have it someplace else. These are notes that I took when I was abroad. I traveled to Europe and visited various financiers and bankers and other officials in London and Paris.

KH: But you traveled in Europe.

LG: I was in Europe.

KH: On behalf of the SEC?

LG: On behalf of myself; this was my project and I was visiting all these people. At the end of the venture, this was the report that I wrote and was published in the *Economic Review*.

KH: Okay; so you went over as your own sort of venture?

LG: Yeah; but with the backing of the Rockefeller Fund.

KH: From the very beginning the SEC wasn't just involved with domestic markets. They always had their eye on sort of the relationship with the world markets.

LG: Absolutely.

KH: Even in the early years, part of the studies they did dealt with the bankruptcies of Cuban companies and South American companies?

LG: Right.

KH: A lot of that.

LG: Now all during my career with the SEC I always had contact with the Investment Company Institute and originally it had a different name, and we worked very closely. When I left the SEC I also continued with the Investment Company Institute. Now in 1990, the Institute had a celebration of a half a century of service, and they asked me to give them a comment on my feeling about this. And so I wrote them a letter, which I think you would find interesting. And this is a photograph; I'm over here.

I think the Chairman of the SEC was on here—well I don't know which one. But these are people who were very active in the investment company industry, and you can have that. And then in 1959 after I had come back from Europe I was still very active. The Small Business Investment Company Act was passed and we, who were in the SEC on the '40 Act staff were asked to comment on aspects of the Small Business Act and so I participated in lectures around the country. This is one of the pictures that was taken at the time.

KH: So this was like sort of a Speaker's Bureau where you would talk to business people across the country?

LG: Yes.

KH: About the Act and how it might affect them?

LG: About the Act and encouraging them to make application to get funds for it.

KH: This is a far cry removed from what you started doing.

LG: It certainly is. And lastly, this is when I left the SEC and there are printed remarks by Joe Woodle who was then Director of our Division and he makes a statement about me and my leaving and he covers so many items that I had participated in I thought you might

like to take a look at it. And then the rest of it is what happened thereafter when I left to go to Dreyfus and Company and I think maybe this might be also of some interest.

KH: This will be very, very helpful and it will help fill out a little bit of your personal story also with the SEC and the things that you did there and for the long career that you had. Looking at the book that you gave me, the George Washington compilation, sort of the celebration of the beginning of the history of the SEC after a number or years.

LG: Right.

KH: And you mentioned that the foreward is written by Justice Douglas. He was, if I remember right, he was the Chairman when you first started there.

LG: He was Chairman.

KL: And he was preceded by Mr. Landis?

LG: No, by Kennedy—Kennedy was the number one guy.

KH: Okay; and then after that Mr. Frank?

LG: Jerome Frank.

KH: Right; did you have any kind of associations at all with the Chairman—Justice Douglas or Mr. Douglas before he became on the court—with any of those folks individually or have correspondence with those people?

LG: I was just an ordinary attorney at the time on this small aspect of the SEC. But, there was the aroma, the feelings that they gave out.

KH: Well, tell me about that. We hear this over and over again and all the people who are really running an agency—they're all below the Chairman; they're the ones that do the work. But we've heard people talk about this feeling that—that these Chairmen give off.

LG: There was such a zeal to do the right thing to correct whatever was wrong, to make sure that things went well and it permeated the atmosphere. It was one of the best times to be in the Washington area in the legal field. Every one of the lawyers you spoke to had this feeling of having done a great job for the public.

KH: Because the country was in a financial mess.

LG: It was.

KH: And you saw your work at the SEC as making this financial system better.

LG: That's right; we were trying to prevent the crooks, the people who would take advantage of poor people. We knew that some of those small owners of businesses and small operators had lost millions of dollars. It was a mess and then you know at first the people from Wall Street came down and—they say you're trying to undermine the market, you're trying to do all of this or that and it's going to be the worst possible thing. And then what happens? There comes the blow of Richard Whitney.

KH: Tell me about that. It wasn't the free lunch for your guys. There were the battles that you had to fight.

LG: You'll find that—for example in Landis' statement that John Foster Dulles came down with a fervent plea to not go through with this stupid kind of legislation that was unnecessary—that the market would take care of it itself and—but then better minds took over and said no, we've got to negotiate.

KH: What was the impact of the Whitney incident? The SEC was in the middle of a fight with the Stock Exchange. I know that you weren't directly involved in that but the sort of feeling…

LG: I know that was the background and the feeling was that my God, now we really got a real live incidence of non-disclosure.

KH: With one of the most prominent businessman in American history?

LG: And not only that but one of the elite; if there was anything like class at that time, they were upper class and with no consideration for the public, and this must have done FDR's heart so good because he was the butt of all of their antagonism. You know the Public Utility Holding Company Act was passed by only one vote? It was awful.

KH: So the early battles of the SEC that you're describing, some before you got there, but you were certainly…

LG: I was there during the period when they were…

KH: Knockdown drag-out… we're not sure we're going to win these things.

LG: The Holding Company Act went through so much anguish and work done that had to be done needlessly because if they had come through initially and agreed to everything it all would have flowed very nicely and as it worked out, it's worked out beautifully in the Holding Company area, but needless to say there were conflicts of interest throughout and constant battles. But it was so important for us to get top-notch lawyers. Of course, most of them came from Harvard, Columbia, and Yale, Chicago also, Stanford later,

Northwestern was one of the schools; and it was unfortunate that NYU then was not at the top grade as it is today.

KH: But you had people from other schools also?

LG: Oh yes, oh sure.

KH: And then it was the kind of thing you're saying that these Commissioners and the Chairman would exude off this desire to do the right thing as you put it and you had a lot of young lawyers wanting to be involved in this kind of action.

LG: We had—there was one particular lawyer now that you mention it who had been on Clarence Darrow's staff when he was handling the *Scopes* trial and I don't remember his last name. I knew him so well as Bob; he was one of the people working on the staff. He was a highly intelligent and very bright guy. He was from Kentucky.

KH: And he wanted to be there?

LG: And he enjoyed being there and working full force on doing the right thing, and I think they had people from all over the country doing that. It was one of the happiest periods of a person's life to be involved in the investment company area.

KH: These folks have looked back on the early Securities Acts and Exchange Act; they've looked back on them. They've looked back on the early SEC. I wanted to just ask you maybe in the last couple minutes here, you looked back on it. Tell me a little bit about what you think it accomplished. I mean you told me what you tried to do. What do you think this agency accomplished while you were there?

LG: Even while I was there the mutual fund industry was going great for them. We encouraged them; they knew that the Federal Government was there to make sure that investors wouldn't be raped, that they wouldn't be deprived of what they were entitled to, and we encouraged the growth through our contacts with the Investment Company Institute for example. From the time I got there to the time I left, the industry must have grown to exponential growth. It was in the billions and as I said - it's a good thing that the SEC did not put a limit on the amount that the funds could create because they're now in the billions.

KH: And you created the conditions through disclosure and regulation?

LG: Yes we created this…

KH: For this kind of growth?

LG: Growth—I must say though that the greed of man is unfathomable sometimes because when I read about what the Attorney General in New York uncovered I was aghast. One of the things that I worked so hard on at the very beginning of my period with the Investment Company Act was to see to it that all sales of mutual fund shares would be made at the next price—not at yesterday's price, because if you did it at yesterday's price there was an opportunity for greed, for taking advantage of the investment company and so despite the argument they made which was that—oh we need a fixed price in order to sell anything; we said no, you're going to sell just like you do in the stock market. You don't know what price you're going to get, unless you put the order for a specific price, but if you want to sell mutual funds, you sell it at the next established price.

So as I say, I was absolutely aghast that could happen; how could the SEC in their examination of mutual funds have missed the fraud? They go over everything very carefully. The mutual funds have their independent accountants reviewing what goes on in the way of sales; how could that have happened that they would let some firms make special deals and be able to choose their own price? That doesn't make sense.

KH: What do you think happened there—an issue of speculation?

LG: I think they just saw an opportunity to do something and they took advantage of it knowing full well what they were doing and I think it requires the toughest action against them for having done that.

KH: So you needed the same kind of vigilance that you folks were providing in the early years?

LG: Apparently we need constant vigilance and that's why the Investment Company Act, the Securities Act, the whole panoply of government regulation through the SEC is so important in our economy because if people like that do things against the interest of others, it hurts the industry and many, many companies I think who have done things that they shouldn't have done have suffered as a result when the facts came to light.

KH: I just have a couple more questions. You talked a lot about the attitude that you on the SEC and a lot of your lawyer friends had about this being the place to be and you really were performing a genuine public service. You felt that this was really was a patriotic thing; it was a job, but it was more than just a job. You had an ambition to help the country.

It seems like that the attitude about government service has changed, and I might be wrong about this, but it seems like—certainly lawyers involved in government services, many of them are still very enthused about it, but the public attitude about government service has changed some. You don't see the top graduates from Yale and Harvard and some of these schools going there. Why? Why do you think that is? Is it because of the leadership? Is it because of the conditions or the money or something else?

LG: Well I think maybe it's because they can take advantage of what the SEC has done for the industry and permitted them to get more money—in industry rather than in the government, but here is one of the reasons for the Rockefeller Public Service Awards, I'd like to read you a forward: "At the time the Rockefeller Public Service Awards were instituted, the morale of the Foreign Service and the Civil Service was being undermined by a series of shameful attacks spearheaded by Senator Joseph McCarthy."

Well Mr. Rockefeller conceived of his proposed awards as helping to counteract McCarthy's morale depressing campaign, a dual directive was in mind—one purpose was to enhance the attraction of government service and by publicly honoring someone at the same levels at which superior ability is drawn into private practice. The awards would constitute an expression of citizen appreciation and respect for the Civil Service.

KH: So what you're saying there is that these awards are an attempt to sort of counteract the denigration of public service…

LG: Yes; that it was getting into…

KH: … undermining public service?

LG: … it was becoming like this guy, Joe Weiner was saying, well we don't need top-grade men; we can just get the humdrum ordinary guy who isn't at the top of his class. Well I think that the government should have top-grade men and they should try to get them and maybe they should pay for it.

KH: But the SEC wouldn't have become the agency that it is. One of the historians has written about the SEC as the most effective New Deal agency of all; it's one of the lasting achievements of the New Deal.

LG: Absolutely.

KH: And it wouldn't have been that without…

LG: And that's why it was discouraging when—well some of the actions took place at the SEC in recent years due to politics and why it may happen again because Donaldson was in favor of a change in the accounting area with respect to stock options and how you account for them—an expense or just off the books and you know very well that stock options when they are finally taken and used do affect the financial statements. It's difficult to find out what kind of an expense—that's true, but it should be done.

KH: Maybe because once again that the mission that you started with at the agency is—this is an investor's agency but the only way to make this whole system work is to have clear

rules, understandable rules that everybody knows what's being done so investors and businesses can profit by it.

LG: Absolutely, I think that's basic, and as long as that happens, I think our general U.S. economy will be tops in the world. I don't know—well in England, I think they've done their best to try to achieve the same thing.

KH: Do you have any other recollections or anything you want to add? I think we've covered pretty much all the major topics. We've got your career. We've got a lot of good information about the people that you worked with, your job there, how you worked with those folks, how you came to be at the SEC, and the things that you did during your long career there. Anything you want to add in particular?

LG: I just have fond memory of all the many people I knew and worked with and so many have gone, it just seems to me so sad that they're not around, guys like Milton Freeman, Manny Cohen, Ray Garrett, Ganson Purcell, and Roger Foster. And there were many wonderful women professionals I worked with.

KH: But in a sense, the work that they laid the foundation for is still very much around.

LG: Absolutely.

KH: And that's the best that you can say about somebody isn't it—about the legacy they leave?

LG: Yes, Milton Freeman, for example was the guy who got Rule X-10-B-5 on the books. It took years before he could manage it and then Rule 10(b)5 is, as he said, a statute in itself.

KH: Right.

LG: It was one of the great building blocks of the SEC's field of regulations.

KH: I was reading a little bit of information and we'll finish on this, but I was reading a little bit of information about the SEC in 1939 getting involved in proxy, in other words, developing a set of rules for proxies and there was a letter from one of the companies who's gotten the SEC regulation and they're writing back to the SEC and said we've got—because the SEC sent out—they had a policy of sending this information out to all the companies and getting comment on them before they finally implemented the rule, and one of the companies writes to the SEC and says I got this from you on proxies; if you can please tell me what it means so we know how to respond, we'll be glad to respond. But the truth is of course and eventually it got passed and the rules did change on that.

LG: Right; it was so new.

KH: Right; all of this was so new.

LG: It was one of the great features of the whole—to use the word "panoply" of SEC regulations.

KH: So all of this stuff was new for a lot of folks though. Well I think we've covered everything. I want to thank you very much for the opportunity to sit down with you and your wife.