

# Investment Bankers Conference Committee

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FRANK L. SCHEFFEY, *Director*

October 12, 1935.

## *To All Investment Bankers and Securities Dealers:*

We enclose copies of letters exchanged between Chairman Landis of the Securities and Exchange Commission, ex-Chairman Kennedy of the Securities and Exchange Commission, and the Chairman of our Committee concerning a plan of co-operation set forth in the correspondence.

This correspondence contemplates the organization of a large number of investment bankers representative of the business as a whole into a single group under the supervision, for the time being, of the Conference Committee referred to therein.

All investment bankers formerly registered under the Code and those who have applied for registration under the Securities and Exchange Commission are eligible at the present time to become assenting and contributing members of this group.

### **Earlier Letter.**

On July 31, 1935, the former Code Committee addressed all investment bankers registered under the Code, requesting an expression of their views (by vote) on the desirability of the maintenance of the then existing organization in order that discussions might be carried on with the Securities and Exchange Commission.

### **Resulting Vote and Action.**

In accordance with the vote received in response to that letter (over 90% of those voting being in favor) discussions have been continued—with the result that the Securities and Exchange Commission has now asked the former members of the Code Committee if they will serve as a Conference Committee to promote the carrying out of the program outlined in the correspondence.

### **The Plan.**

The essential features of this program are:

- (1) Pending the development of the Plan (outlined in Sec. 2) the Conference Committee is to set up regional or district committees to consider complaints arising between or against investment bankers who have assented to the supervision of the Committee, and wherever seems justified, to conduct preliminary hearings and report the results thereof, with recommendations to the Conference Committee for its consideration and report to the Securities and Exchange Commission. Certain complaints now before or later filed with the Securities and Exchange Commission will be referred to the Committee for consideration and recommendation.
- (2) The Conference Committee will confer with the Securities and Exchange Commission in developing plans for a permanent organization of a self-regulatory, self-disciplining body of investment bankers with a view to co-operation with the Government for the promotion of fair practices and the elimination of fraud. To this end 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 may become necessary and that it is desirable that an organized group should be thinking and planning with reference to possibilities of this type.

(3) The Committee is to serve as a Conference Committee on current problems now pending before the Securities and Exchange Commission and to be a medium for presenting to that Commission the views of the investment bankers and securities dealers of the country. Among the problems now pending are:

- (a) Separation of the business of dealers and brokers.
- (b) Additional regulation of over-the-counter transactions.
- (c) Additional requirements for registration of dealers.
- (d) Registration of outstanding securities in over-the-counter markets.
- (e) Modification of forms for registration of new securities.
- (f) Dealing in "when-issued" securities.
- (g) Regulation of so-called "pegging" and "stabilizing" of prices in over-the-counter markets.

#### **Plan Approved.**

The members of the former Code Committee have unanimously approved the Plan and have organized themselves under the temporarily approved name of Investment Bankers Conference Committee.

We believe it to be of fundamental importance to the industry that the Plan and program as outlined be adopted at once and a permanent organization formed at the earliest practicable moment.

#### **Advantages of Plan.**

It is unnecessary to point out the desirability of a permanent self-regulating, self-disciplining organization to deal with the above important problems and to establish co-operation between the Government and the investment banking business for the promotion of fair practices and the prevention of fraud.

The objective of minimum government regulation and the maximum of sound self-regulation is one to be sought in the interest of all. In cases of alleged unfair practices not in direct and flagrant violation of State or Federal laws it is obviously preferable that complaints against dealers receive a preliminary hearing in their own locality before members of their own profession familiar with the traditions prevailing in the locality concerned. Upon the basis of these hearings and the recommendations resulting therefrom, such action as the Government may feel called upon to take will thus be more informed and better attuned to the circumstances of the particular situation.

In view of the expense involved and the voluntary character of the program, it is further obvious that only those dealers who assent to and support this program will have this privilege.

#### **Financial Support.**

Such a plan will, of course, require financial support. The Committee is unable at this time to estimate accurately how much expense will be involved. Its purpose will be to keep expenses at a minimum, but in order that continuity may be assured until a permanent organization is in operation, a basic rate of \$10.00, as determined under former Code assessments, has been adopted and assenting dealers are requested to pay one-half of their contribution at this time, the remainder being subject to call, if necessary, at a later date, but in no event later than June 1, 1936.

Prompt action is necessary in order that we may submit to the Securities and Exchange Commission a list of the dealers assenting to the Plan.

A form is enclosed, in duplicate, upon which you may indicate your assent and you are requested to act promptly, sending it together with your check payable to the Investment Bankers Conference Committee for the first payment due, to Sydney P. Clark, Treasurer, 1531 Locust Street, Philadelphia, Pennsylvania. An envelope is enclosed for your convenience.

*Replies should be received on or before October 25th.*

Very truly yours,

INVESTMENT BANKERS CONFERENCE COMMITTEE

B. HOWELL GRISWOLD, JR., *Chairman.*

NOTE: This letter is not intended to be addressed to those dealers whose business is solely in securities such as municipals, exempted from control of the S.E.C., unless application has been made by them to the Securities and Exchange Commission for registration.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON

OFFICE OF THE CHAIRMAN

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,

JOSEPH P. KENNEDY,  
*Chairman.*

MR. B. HOWELL GRISWOLD, JR., *Chairman,*  
Investment Bankers Code Committee,  
Washington, D. C.

WASHINGTON, D. C.  
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.,  
*Chairman.*

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON

OFFICE OF THE CHAIRMAN

September 26, 1935.

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 Mr. Kennedy's 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,

J. M. LANDIS,  
*Chairman.*

MR. B. HOWELL GRISWOLD, JR., *Chairman.*  
Investment Bankers Code Committee,  
Washington, D. C.

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