

June 21, 1990

Mr. Matthew Fink, Esq.  
Senior Vice President  
and General Counsel  
Investment Company Institute  
1600 M Street NW  
Washington, D.C. 20036

Dear Matt:

Thank you very much for your letter of May 24, 1990, inviting me to the Institute's 50th Anniversary Dinner. I will be most happy to attend.

You asked me in your letter for my recollection of the formation of the National Committee of Investment Companies and of the passage in 1940 of the Investment Company Act. The Act was enacted as a result of an investigation of investment trusts and investment companies by the S.E.C. in which it was directed to engage by Section 30 of the Public Utility Holding Company Act of 1930.

Pursuant to this provision, the S.E.C. conducted a four year investigation of investment companies. In the 1920's and 30's the closed-end investment companies were the predominant investment vehicles. Open-end companies in the 1920's and 30's were relatively small in numbers and assets. Unlike closed-end companies, which were sponsored by investment bankers, underwriters and brokerage firms, open-end companies were sponsored by Boston investment managers such as Paul Kabot, who was treasurer of Harvard University. They were formed as Massachusetts Trusts because at that time most state and corporation laws forbade repurchases of their own stock, except out of surplus. The trust form of organization, however, could provide for purchases of shares at asset value.

The investigation actually centered on the closed-end companies which were operated, unfortunately in many cases, in the interest entirely of their sponsors. After the crash of 1929, the shares of closed-end companies typically sold in the market at prices substantially less than their asset value. This disparity between market and asset value resulted in take-overs of many of the closed-end companies by other companies purchasing the shares at market value either in cash or securities with equivalent market value, thus reaping the differential as a profit to the take-over companies. Much like the present day era of the take-over attempts, the history of the closed-end companies thus was a forerunner of the present take-over financial era. Open-end companies, on the other hand, were predominantly free of self-interest and self-dealing by their sponsors. Their problems were largely a lack of specificity as to their

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investment policies and the calculation of asset values and periods for redemption. After four years of investigation and the production of a 10 or so set of reports presented to the Congress the Senate Banking and Currency Committee held hearings on a proposed bill prepared by the S.E.C. It became apparent to the committee as the hearings progressed that the industry and the S.E.C. were largely in agreement as to the necessity for regulation. The committee therefore adjourned the hearings and suggested that the members of the industry and the commission get together to draft an acceptable bill.

Early in 1940, the industry appointed as its representative Paul Bartholet and Alfred Jaretzski, Jr., of Sullivan & Cromwell representing the closed-end companies, and Warren Motley and Charles Jackson of Gaston, Snow, a Boston law firm, representing the open-end companies. This group was the predecessor of the National Committee of Investment Companies, which was the predecessor of the present institute. I believe Paul Bartholet became the first President of the committee and thereafter became the President of the National Association of Investment Companies--which is the immediate predecessor of your institute. Unfortunately, I do not know whether or not Paul Bartholet is presently alive. I know Alfred Jaretzski, Jr. is dead and I know that Charles Jackson is alive. I assume that you will try to get Mr. Jackson's version of this history.


After many sleepless nights of preparation and discussion at Washington's Carlton Hotel in the middle of 1940 a bill was worked out to the satisfaction of the S.E.C. and the industry and jointly presented to the Senate Banking Committee which promptly passed the bill. I am sure your institute and the Act together has been an important asset to the industry as a whole, particularly of open-end companies which were aided by changes in state corporation laws to permit them to offer shares redeemable at asset value. Open-end companies have become by far the largest factors in the industry in terms of both numbers and assets and in variety of investment programs and policies to suit every investment need.

My best regards for the future of the industry. However, I see by the papers that the S.E.C. is intending after 50 years to reexamine the Act and its rules and regulations adopted pursuant to the Act. I can only express my appreciation of the astuteness of the French in their adage; "Plus la change, plus c'est la meme chose." I am sure that

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your institution and the S.E.C. will cooperate to make any changes that are needed in the best interest of investors.

Sincerely,

  
Harry

P.S. I am enclosing a picture of myself from the 1940's