

March 15, 1935

Mr. Rollin A. Wilbur, Managing Director,
The Investment Bankers Code,
Washington, D. C.

Dear Mr. Wilbur:

I have the pleasure to present to you a report of certain of my activities as Director of Compliance since January 16, 1935.

I have visited, since the above date, the Regional Code Committees in the following districts: Mississippi Valley, St. Louis; Southwestern, Kansas City; Central States, Chicago; New England, Boston; Western Pennsylvania, Pittsburgh; Ohio Valley, Cincinnati; Southeastern, Washington, D. C.; Texas, Houston and Dallas; Southern, New Orleans. About the middle of February I also visited the office of the Executive Secretary of the New York district and met with the Chairman of the New York Regional Code Committee.

In addition to visiting with the Regional Committees above mentioned, meetings of security dealer associations and organized dealers were attended at Orlando, Florida; Indianapolis, Indiana; Omaha, Nebraska; Cincinnati, Ohio; Little Rock, Arkansas; and Dallas and Houston, Texas. At all these meetings a talk on the Code and other matters of interest to security dealers was given. Dealers were requested: to ask questions concerning; to voice their suggestions for better operation of; and to state their criticisms and complaints of the Code.

In each city visited, whether for meetings with Regional Committees or for dealer meetings, many visits were made to investment bankers at their offices. Some of these visits were made at the request of the Regional Committeemen to firms who for one reason or another did not want to air their grievances, complaints or suggestions at a public meeting.

The following districts have not been visited: Eastern Pennsylvania, Minnesota, Michigan, Northern Ohio, Rocky Mountain, Pacific Northwest, and California. It is my intention to visit the Eastern Pennsylvania, Michigan, Northern Ohio, and Minnesota districts within the near future. I have been invited to attend meetings of investment bankers in Portland, Maine; Milwaukee, Wisconsin; and Des Moines, Iowa, in April and have accepted.

With very few exceptions I found that the various Regional Committees were endeavoring (1) to enforce the Code in a fair and sensible manner; (2) to keep dealers in their districts fully informed of Code operations; (3) to inform the public of their rights of complaint under the Code.

I found particularly in those districts where there exist organizations of dealers that cooperation between the dealers and with the Regional Committeemen was exceptionally good. In these sections there also was evident a sincere appreciation of the necessity for and the benefits that dealers had derived from the Code. In fairness it should be stated, however, that cooperation of dealers with Regional Committeemen in districts where dealers are unorganized is in most cases very good.

Criticisms of the Code as expressed by investment bankers in general were on the following points:

1. Assessments – principally by dealers in classes one and two. The complaint was that the assessment in these classes was too high and that it was, when considered in connection with other fees and taxes which attach to the business, an additional and somewhat heavy burden upon the small dealer. I was told several times of small dealers who should register and who were in sympathy with the Code but who were not doing so because of the cost.

2. Experience and Qualifications of Salesmen. There is some localized discontent with this section of the Code, confined mostly to security dealers in the smaller cities. Most of these dealers recognize the necessity for the rule but say that under present circumstances and particularly in the small communities that they can't afford to train salesmen for six months and pay them a salary; and that they are unable to obtain the services of trained men. Most of the Regional Committees, in such districts as Texas, Southwestern, etc., where there are small cities, are now interpreting this rule liberally and in a reasonable manner.

3. "Cleaning" of market by underwriters and sale by underwriters of securities "firm" before effective date of the registration statement as required by the Securities Act of 1933 and before the three day waiting period required by the Code.

Complaints in regard to the activities of underwriters in this respect were mostly from relatively small dealers in one district. Specific instances of such violations, with permission to use, were not forthcoming.

4. Domination of National Code Committee by representatives of large New York institutions and lack of representation on Code Committee of small dealers with less than 25 employees who form the bulk of members of the Code and who supply approximately 50% of the funds needed to operate the Code. There was not a great amount of criticism of this particular matter but those who did criticize were quite positive and emphatic in their statements that there should be more equal representation.

5. Improper districting. Natural trading territories are ignored. (Typical instances: (1) Memphis is in the Mississippi Valley District. The Chairman and two other members of the Committee are located in St. Louis. Apparently there is not much business done with St. Louis by Memphis and they have very little in common. Most of the Memphis business outside of Tennessee is done in Mississippi and Louisiana. Memphis handles the same kind of securities and is competitive in the same market with New Orleans, Nashville, Atlanta, etc. (2) Charleston,

South Carolina, is in the Southeastern District, headquarters for which are in Washington, D. C. It is reported that investment banking business in Charleston is not done with Washington or Baltimore, but is done with Atlanta in the Southern District.) These apparent inconsistencies and some others were pointed out by several dealers and requests were made that the matter of redistricting be promptly considered by the Code Committee.

6. Slowness of National Committee in settling complaints and in approving and putting into effect amendments to the Code. Particular criticism was directed to the slowness of the settlement of the so-called B. & O. cases and the time used in putting into effect the bank concession amendment. Some criticism was also directed at the National Recovery Administration regarding what many dealers regard as bureaucratic tendencies and inability to give prompt action on Code amendments such as the bank concession and three day clause amendments.

I – REGIONAL CODE COMMITTEES

District No. 2 – Central States

The Committee in this district is aggressive, competent, and interested. Its affairs are directed by an able and energetic Chairman. The Committee has done an excellent job in keeping the dealers in their district informed of Code affairs; they are alert to violations of the Code; and have settled many complaints informally. They have cooperated with the SEC, NRA, State Corporation Commissioners, Better Business Bureaus, and other such agencies as exist in their district and which are helpful in Code enforcement work and elimination of fraud from the investment banking business. Several meetings of dealers have been held in various cities in the district. A system of examinations for prospective salesmen has been put into effect with gratifying results. Studies have been made of the service charge problem.

District No. 6 – Mississippi Valley

Until quite recently the Committee in this district had not been very active and had shown relatively little interest in the Code. Dealers had not been brought into close touch with Code activities and had not been kept informed of important matters of vital interest to them. The Committee apparently had made no effort to discover violations of the Code or to encourage the public or dealers to report violations. Very little was done along the line of cooperating with law enforcing agencies or of building up contacts with other agencies that would be helpful to the Committee in enforcing the Code.

Some dealers in this district complained that the Committee did not properly represent the dealers of the region in that three banks, interested in municipal bonds exclusively, one New York Stock Exchange firm, and only one general investment banking house was represented on the Committee.

A thorough discussion of this problem was had with the Regional Committee members and it was agreed by the Committee that they would conduct the affairs of the district more aggressively. A letter was prepared and sent to all dealers in the district; more intimate contact

was established with the St. Louis Better Business Bureau, and a story on the Code, outlining among other things the rights of the public under the Code, was written and published in the February 20 bulletin of that Bureau. This bulletin was sent to approximately 10,000 people in the district. Some newspaper publicity regarding the meeting of the Regional Code Committee was obtained and a start was made towards building up cordial relations with the financial editors. Tentative arrangements were made for a meeting of Arkansas dealers. (This was accomplished on March 4, 1935.)

I believe that it can be said that this Committee is functioning more aggressively and that there now is less ground for criticism of the Committee.

District No. 15 – Southwestern

This Committee is composed of able and conscientious men who proceed deliberately and cautiously and who are most earnest in their desire to see that the Code is lived up to. There has been some resentment on the part of some dealers because they have not been kept more fully informed of Code affairs. A surprisingly large number of dealers in this district (principally in Kansas City) are not complying with the Code in the proper use of confirmation forms in that they are not in many instances differentiating and disclosing to the client whether or not they are acting as principal or agent. Educational work among dealers is necessary in this district. It was recommended to the Committee that they get in closer touch with dealers in the district, that more frequent communications be sent out by the Committee, and that meetings of dealers be held. The Committee agreed to this.

As the work required of the Chairman of this district was proving burdensome it was suggested that the Committee consider engaging a part time secretary who would handle the details of the work and who would be compensated. This matter is now under consideration by the Committee.

District No. 13 – Southeastern

The Regional Code Committee of this district have an earnest desire to administer the Code efficiently and to enforce it. Dealers have been kept fairly well informed of progress of the Code by means of letters. The Committee has recently requested all dealers in the district to submit for Committee examination all forms used. From what I have learned I should say that the dealer attitude in this district towards the Code is fair. Of the two large cities in the district there is probably a better appreciation of the value and benefits of the Code in Baltimore than in Washington. In Richmond it is reported that the Code is looked upon with favor. (See remarks in connection with redistricting above re Charleston, S. C.) It is reported that dealers in South Carolina have recently formed a Security Dealers Association.

District No. 7 – New England

Code enforcement in this district is efficiently conducted. The Committee is alert to violations of the Code and gives every evidence of being willing to devote time and thought to Code affairs. Frequent meetings of the Committee have been held. Dealers are fairly well

organized and are kept informed and advised by the Committee. This Committee has done a great deal of work on a plan setting up uniform charges for services performed by investment bankers, which has substantial support from dealers in the district, and which was taken up informally with N.R.A. The Committee was informed by N. R. A., however, that the plan would probably not be approved. As this was a matter of some importance to the Committee and to the investment bankers in the district, the attitude of N. R. A. was discouraging and to some extent this has been reflected in the attitude of the dealers in the district towards the Code.

In general I would say that while many dealers in New England are passively opposed to the Code, this opposition does not represent a majority opinion and that the Committee is performing a very real service to the investment banking business in New England.

District No. 8 – New York

Up to the present time I have not spent much time in the New York office. However, from the knowledge that I have of the activities centering in the Regional Code Committee's office in New York, I would say that the office is most efficiently conducted and furthermore that the work done by this Committee, which is well known to the members of the Code Committee, is helpful and is a distinct contribution to the investment banking business. Many complaints have been adjusted and the office has received the cooperation of and cooperates with the State and Federal law enforcing agencies and with the Better Business Bureau in New York City. Dealers in this district have received several carefully prepared communications and have received excellent cooperation from the Executive Secretary's office.

District No. 16 – Western Pennsylvania

Up to a few months ago this Committee had not been very active. Recently, however, letters have been sent to dealers acquainting them with Code matters. A system of examinations of salesmen has been put into effect with very good results. The Committee has obtained the cooperation of the financial editors in Pittsburgh and have obtained good publicity on the Code. Use of and cooperation with enforcing agencies has been effected. The Committee is devoting considerable time to Code business and is now considering hiring a man to act as full or part time secretary and to follow up more consistently the ideas of and the work of the Committee.

Few complaints have originated in this district but some complaints have been forwarded to the Committee by other Regional Committees and these are being handled carefully and efficiently. It is reported, and my observation leads me to concur, that the dealer attitude towards the Code is fairly good and that they have no particular grievances.

District No. 10 – Ohio Valley

The attitude of this Committee I believe was well expressed by one of its members when he said, "We let trouble hunt for us. We don't go out trying to find violations." Little if any effort is made to let the public know about the Code.

Dealers, however, are well organized in this district and frequent meetings of dealers are held at which time problems of the business and Code matters are discussed. Very few actual complaints have been handled by the Committee but the Chairman and members of the Committee have been alert to conditions and circumstances which might lead to complaints and have warned dealers informally that transactions or proceedings such as apparently contemplated would be violations of the Code. Where this method of warning can be carried out it is an effective way of enforcing the Code without seeming to do so. The dealers in this region are in general somewhat skeptical in their attitude towards the Code, although they do admit that the Code has been of some value to the business. The State of Ohio Securities Law is well enforced and there are frequent examinations by State officials of confirmations of dealers and of other records. Consequently the Rules of the Code regarding confirmations etc. are carefully observed.

District No. 17 – Texas

The Regional Code Committee in this district is aggressive and alive to its duties under the Code, and has the respect of the dealers in the district. The dealers generally are interested in the Code and in most parts of the State are living up to it and are cooperating. A very high proportion of dealers in the state are registered. The Committee has had very few violations brought to its attention. Those cases which it has handled have been adjusted informally and satisfactorily.

District No. 14 – Southern

This Committee gives every evidence of a sincere desire to make the Code a factor of importance to investment bankers in this district. The Committee has adjusted several complaints informally; has investigated and reported on complaints forwarded to it from other Committees, and has cooperated with State and National law enforcing agencies. They have kept in touch with the dealers in the district through communications. The dealer attitude towards the Code is good and there is apparently a feeling that the Code has been of value to the business and that it should be continued.

II. MEETING WITH GROUPS OF INVESTMENT BANKERS

1. Orlando, Florida: A meeting of the Security Dealers Association of Florida was held in Orlando on January 17 and 18. There were present some 35 investment bankers representing every section of Florida. Also present at the meeting were two members of the Florida Securities Commission, the Attorney General and the State Treasurer. One of the afternoon meetings was devoted entirely to the Investment Bankers Code. This meeting was open to all dealers and their salesmen, and about 60 were present. There was every evidence of a great interest in the Code. Many questions were asked and there was a full and open discussion of the advantages and disadvantages of the Code as it applied to the securities business in Florida. I gained the distinct impression that there was much interest in the Code, and that it was looked upon with favor by the dealers in Florida. The Florida Security Dealers Association is quite an active organization and the officials of this body assured me that they had in the past and

would continue to advise with and assist the member of the Regional Code Committee residing in Florida.

2. Indianapolis, Indiana: In Indianapolis an evening meeting of the members of the newly formed Indiana Security Dealers Association was held. There were some 20 investment bankers present. The dealers present at this meeting indicated considerable interest in the Code and asked many questions concerning it. In general I might say that their attitude could be considered as favorable and that many dealers expressed the view publicly that the Code had been of great value to them in their business and that because of the fact that they were not giving concessions on old or new issues of securities, they had saved many times over the cost of the Code to them. In Indianapolis a little more than half of the dealers are registered under the Code, and it was felt that if one firm; namely, Thomas D. Sherrin and Company would register, that many other firms would follow their lead. I endeavored to see Mr. Sherrin twice but was unable to make an appointment. The Regional Committeeman in Indianapolis assured me, however, that he was working on this organization and that he was confident that within a reasonable time they would register, and that when they did so he felt that there would be a favorable change in the attitude of the non-registered dealers and that many of them would register.

3. Omaha, Nebraska: A meeting of the Investment Bankers Association of Nebraska was held in Omaha with an attendance of approximately 50. This was an afternoon meeting devoted entirely to the Investment Bankers Code. In the evening a dinner meeting was held and about 15 representatives of the leading Nebraska firms were present. At both these meetings there was evidence of a cordial attitude towards the Code and a desire to discuss frankly the problems of the investment bankers in that state in their operations under the Code.

4. Cincinnati, Ohio: A luncheon meeting was held in Cincinnati with some 25 investment bankers being present. In Cincinnati there is apparently a more or less critical attitude taken towards most so-called regulatory laws, of which the Code is classed as one. Despite this attitude of skepticism, the dealers in general are willing to admit that the Investment Bankers Code is of value to the business and should be continued. Many firms in this district are definitely and aggressively in favor of the Code. At this meeting there was considerable discussion and criticism of the activities of large underwriters of securities in that region.

5. Little Rock, Arkansas: A visit to the dealers in Little Rock was arranged at the request of the Mississippi Valley Committee, who at the time of my visit in St. Louis were of the opinion that the investment bankers in Arkansas were indulging in many practices which were in direct violation of the Code. At the meeting some 16 dealers were present, out of 22 authorized to do business in the state. Mr. Milton K. Revell, member of the Mississippi Valley Regional Committee, accompanied me to Little Rock and while we could find no evidences of Code violations, we were quite satisfied that the visit had a salutary effect. It was suggested that it might be a desirable thing if the dealers in Arkansas would form a Security Dealers Association and the suggestion was received with interest, a special committee being formed to consider the matter. At this meeting the Corporation Commissioner of the State of Arkansas was present and he talked with the dealers, told them that it was his intention to back up the Code Committee, and

that he would report any violations of the Code that came to his attention to the Regional Committee.

6. Dallas, Texas: A luncheon meeting was held in Dallas at which about 35 dealers were present. Investment bankers in Dallas apparently are much interested in the Code and many of them expressed the hope that it will be continued. They were at the time of my visit somewhat concerned over indications that N. R. A. was going out of existence and wanted to discuss the possibilities of continuing the Code under the control of S. E. C. in the event that N. R. A. was not extended beyond June 16, 1935. Most of the questions asked by dealers in this section concerned the salesman provisions of the Code. After a full explanation of the desirability of this section, it is my opinion that most of the dealers were convinced that the section is desirable and that the Regional Code Committee was acting properly in enforcing it.

7. Houston, Texas: A luncheon meeting was held in this city, some 30 investment bankers being present. There was an attitude of interest in the Code. A very full discussion was held and many questions asked. I would say that, as in Dallas, the dealers in this city are in favor of the Code, and are desirous of having it continued.

III. FRAUD

In all the cities visited investment bankers have shown great interest in the subject of elimination of fraud and of crooks from the business. Dealers want to cooperate in this sort of thing and realize the benefits to be derived from cleaning house.

Better Business Bureaus have been of considerable help along these lines. In every city visited, time was taken to call on the Manager of the Better Business Bureau and to offer him the cooperation of the Investment Bankers Code Committee and the Regional Code Committee and to ask his cooperation with these agencies in helping to eliminate firms engaged in fraudulent security transactions.

IV. COOPERATION WITH SEC

All investment bankers talked to and all Regional Code Committees were much interested in the fact that the SEC had asked for the cooperation of the Investment Bankers Code and that the Code Committee was cooperating with the SEC in every possible way. I was happy to be able to tell them that our efforts towards cooperation with this important body have been well received and are appreciated by the Commission.

V. CORPORATION COMMISSIONERS

I visited with the Corporation Commissioners of Indiana, Nebraska, and Arkansas, and with two of the three members of the Florida Securities Commission, and in each of these states I found these gentlemen interested in the Code and the possibilities that it had for good in the business. This is particularly true of the Commissioners in Indiana, Arkansas, and Florida, and while the Commissioner in Nebraska was interested and hoped to work with the investment bankers he stated that he was handicapped by a lack of funds.

VI. CONCLUSION

The great majority of investment bankers in the cities visited expressed the thought that, viewed impartially, the Code had been, and is now, of great value and importance to the investment banking business, and further that despite its imperfections and the criticisms that they have some of its provisions, they want to see the Code continued and effectively enforced.

The Regional Code Committees as a whole devote a great amount of time to Code affairs and are serious in their intentions to administer the Code effectively, efficiently, and impartially in their respective districts.

Very sincerely yours,

Wallace H. Fulton
Director of Compliance