

# Investment Bankers Code Committee

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OFFICE OF MANAGING DIRECTOR  
1010 VERMONT AVENUE  
WASHINGTON  
D. C.

July 31, 1935.

## *To All Registered Investment Bankers:*

In accordance with its letter to you of June 12th the Code Committee has continued to co-operate with the National Industrial Recovery Administration and the Securities and Exchange Commission, and has advised with counsel, in an effort to develop a permanent plan for the continuation of a self-regulatory and self-disciplining organization which would perpetuate the principles and rules set forth in the Code for the protection and benefit of the public and of the investment banking business.

After a study of existing legislation and the recent decision of the Supreme Court of the United States it appears questionable whether such organization could safely be created at the present time because of obstacles raised largely by the anti-trust laws, unless remedial legislation were enacted to remove such obstacles. There now appears to be little chance of such legislation during the present session of Congress.

The Code Committee, at a meeting held in New York, on July 22nd, 1935, after thorough discussion and deliberation has decided that it is necessary to bring to the attention of investment bankers the critical status of present conditions, which may be briefly outlined as follows:

(1) The Code expired by limitation on June 16th. On May 29th the Code Committee requested that all investment bankers continue to maintain the high standards set up in the Code. On June 12th the Committee recommended that its organization be maintained on a limited basis in the current crisis. Of more than 3200 registered investment bankers only 24 expressed disagreement with this recommendation.

(2) Under existing circumstances the Code Committee must say frankly to all registered investment bankers that the principles and rules of the Code, desirable as they are for the benefit of the public and of the business, cannot be enforced without Government sanction which does not now exist.

(3) Creation of such Government sanction will require further legislation. What this legislation may be or when it may come cannot now be predicted. There are, however, definite possibilities and the Code Committee believes it desirable in the interest of the investment banking business as a whole and of the public in general to maintain a position to take prompt advantage of opportunities as they arise to re-establish effective Fair Trade Practice Agreements. In the meantime a study of the Code should be pursued with a view to the elimination or modification of those provisions which experience has proven ineffective or unjust.

(4) It is impossible to over-emphasize the importance of self-regulation and the serious implications involved if we failed in any opportunity that might be presented to us. The apparent alternative will be more stringent and more detailed and burdensome regulation from the outside, making still more complex, difficult, and costly the operation of our business.

(5) Vital subjects which we are informed are now under consideration in Washington further emphasize the importance of maintaining an organization in order that the point of view of the fullest possible membership of the industry may be presented before official action is taken. These include such problems as (a) additional requirements for registration of dealers; (b) registration of over-the-counter securities; (c) further forms for registration of new securities; (d) dealing in when-issued securities; (e) pegging and stabilizing markets in over-the-counter transactions; (f) separation of dealer and broker functions; (g) separation of underwriting and distribution functions; and (h) additional regulation of over-the-counter transactions.

(6) Members of the Securities and Exchange Commission have expressed the hope that the Code organization will be continued in order that the Commission may obtain the judgment of the greatest possible proportion of the industry through its appropriate Committees in the consideration and determination of these further problems. The National Recovery Administration likewise has indicated the desirability of continuing the organization on a voluntary basis pending the announcement of Governmental policy with respect to the recognition of trade agreements and possible aid in their enforcement.

In view of these circumstances and in order to preserve the benefits attained during the past two years of effort in formulation and administration of the Code provisions, and to aid in meeting these problems it is the judgment of the Code Committee that some organization should be maintained.

The Code Committee therefore requests Registered Investment Bankers to express their views upon the policy outlined above. If approved, the Committee proposes to operate on the following basis:

(a) Members of the Code Committee, its Sub-committees, and the Regional Committees will continue as heretofore to serve without compensation.

(b) All offices of Regional Code Committees will be discontinued.

(c) A Washington office of the Code Committee will be maintained, with staff reduced to a minimum.

(d) Code Committee and Sub-committee traveling expenses will be reduced to a minimum consistent with necessary meetings and consultation with Washington authorities.

On the above basis the Committee estimates that expenses will be reduced to approximately \$2,000 a month, as indicated by the budget printed on the last page of this letter.

Determination as to whether this program will be carried out is dependent on the voluntary support accorded by investment bankers after due consideration of the foregoing factors. On the basis of the experience of assessments under the Code it is estimated that a contribution on a basic rate of \$5 would be sufficient to carry on operations until the early part of next year. Should it appear during such period that nothing concrete can be accomplished the Committee will cease operations and refund the unexpended balance. Determination of the policy must be predicated upon the allowance of a reasonable time for solution of the complex problems involved and any permanent plan which may be developed by the Committee will, of course, be submitted to investment bankers for their approval.

Funds now in hand will not permit the continuance of operations beyond August 15th despite further curtailments now being put into effect in both the Regional Committees and the Washington office. It is highly important that the Code Committee know well before that date whether registered investment bankers want its activities to be continued. You are, therefore, requested to indicate your wishes on the enclosed card at the earliest possible moment.

By direction of the Investment Bankers Code Committee.

ROLLIN A. WILBUR,  
*Managing Director.*