For Mr. Layton

Release — Thursday P.M.

OPEN-END TRUST LEADERS ATTACK

INVESTMENT TRUST BILL

The bill to regulate investment companies, introduced today (Thursday) in the United States Senate by Senator Robert F. Wagner of New York, was said by leaders in the open-end trust field to go far beyond anything needed to cure abuses in the investment trust business. The bill, they claim, involves many highly controversial questions, and represents merely the SEC's views as to how the business should be conducted.

A statement issued jointly by Merrill Griswold, Chairman of Massachusetts Investors Trust of Boston, and Hugh Bullock, Vice-President of Calvin Bullock of New York, on behalf of a group of open-end trusts in New York, Boston and Chicago representing over 40% of the combined assets of all open-end companies, said, "This bill, which was prepared by the SEC not by Congress, attempts to cast all investment trusts in a single mould, and demands reforms in cases where no evidence has been presented to prove the present need for such reforms. To this extent, the bill is merely an attempt by the SEC to force its highly debatable economic ideas upon business.

"This bill arbitrarily limits the size of investment trusts. It limits the right of an individual to organize legitimate business ventures except with the approval of the SEC. And it gives the SEC wide and inclusive powers to issue rules and regulations. This wholesale delegation of legislative power means that the entire investment trust business will be subject to the theories of a few individuals.

"The procedure adopted in the introduction of this proposed legislation is a strange one. The SEC, after conducting a four-year investigation into the investment trust business, was supposed to make to Congress its formal recommendations for legislative action. No such recommendations have ever been made. Instead the SEC, without following the instructions

it received from Congress, has drafted a complete bill of its own and arranged for its introduction into Congress. We deplore the way in which it is possible today for Federal administrative agencies like the SEC, which properly have no legislative powers, to draft legislation and present it fully prepared to Congress.

"As far as we can see, the bill as introduced has few friends except in the SEC. Senator Wagner, who introduced the bill in the Senate, publicly stated that he was not committed to support it in its present form. Congressman Lea, who introduced an identical bill in the House, made it very clear that his Committee was in no way committed to its support, and said that he will go thoroughly into the matter in order to produce legislation that will be fair, and helpful to honest business.

"It has been implied that the SEC intends to hold further conferences with representatives of the investment trust business, in the expectation of ironing out controversial points. During recent weeks, in fact for several years, conferences have been held between the SEC and those in the business; and the introduction of the bill now, containing many highly controversial points, indicates that the solution to these business problems must in the final analysis be left to the determination of Congress. In this connection, the statement made by Congressman Lea, Chairman of the House Committee, that the bill will not be acted on hastily is welcomed by our business as showing a clear understanding of the problem.

"The explanation of the bill itself, which was sent today to the press, was prefaced by a 3,000 word indictment of the investment trust business, which was not only immoderate in tone, but in our opinion unfair and misleading. It discusses abuses most of which occurred back in the boom and panic days of 1926-1933. It presents figures that we cannot reconcile with the facts, and by inference indicates that some of the "horrible examples" cited represent general practice, rather than isolated cases of abuse of trust.

"The open-end trust," the statement continues, "serves a useful purpose in the economic field. It is a medium through which the small investor may

obtain diversification of investment subject to constant supervision. The protective features characteristic of this type of trust include the right of shareholders to redeem their shares at liquidating value at any time; complete publicity on operations and investment holdings; daily information on the asset value of shares; and restrictions against investing more than five percent of the funds in the securities of one company or holding more than ten percent of the stock of any one company. All securities owned by this type of trust are in the custody of a bank or trust company.

"Safeguards of this sort are usually incorporated in the legal instruments under which such a trust operates, and are imposed by the Blue Sky regulations of so many states that trusts have to comply with them in any event. The generally meritorious operation of the open-end trusts, in which the public owns shares worth over one-half billion dollars, is deserving of thoughtful consideration before any legislation is encated that might endanger their continued operation to the detriment of hundreds of thousands of shareholders whose average investment is not much more than $1,000."

Referring to specific features of the bill, the statement by Messrs. Griswold and Bullock says, "We can see no sound reason why the bill should arbitrarily limit investment trusts to the maximum size allowed in the bill. Even the largest investment trusts are small as compared with other types of financial institutions. The SEC's four-year investigation failed to prove that size was any detriment to investment performance. On the other hand, the record clearly shows that the cost of operation per $1,000 of assets declines as the size of a trust increases, so that large size results in substantial economies of operation, with resulting benefits to shareholders.

"In the case of open-end trusts, any fear that large size might result in undesirable control of other corporations is without foundation. Trusts of this type cannot hold more than 10% of the stock of any corporation, no matter how large the trust may be. Because of existing restrictions, it is difficult to imagine any case in which a substantial aggregation of capital is as unlikely to result in undesirable concentration of economic power. If it is feared that a group of open-end trusts under affiliated management might

conceivably obtain control of other corporations through their combined holdings, the way to prevent any such possibility is not to limit the size of investment trusts, but to specify that no such group of trusts between them can hold more than a specified percentage of the stock of any corporation.

"We object also", the statement by Messrs. Griswold and Bullock continues, "to the way in which the bill delegates broad legislative powers to the SEC by giving the Commission authority to issue rules and regulations on so many phases of investment trust operation. The scope of this authority is so wide that the SEC, for instance, can at its discretion, exempt any individual it chooses from any or all provisions of the bill. Such outright delegation of authority by Congress will give us a Government of men, instead of a Government of laws, because it subjects business to the personal theories of a few individuals.

"The bill also threatens to disrupt the existing managements of many trusts through complicated provisions as to who may, or may not be a director of an investment trust, and by limiting the outside business affiliations of individuals connected with the investment trust business.

"Under the terms of this bill," the statement continues, "anyone who organizes an investment trust is prohibited from organizing another trust within a period of five years. This restriction puts a penalty on experience. We seriously question whether Congress, after careful consideration, will wish to restrict, to that extent, the liberties of any businessman, by denying him the right to organize legitimate business ventures as often as he wishes.

"The bill also contains a number of other provisions" the statement concludes, "that seem to us unsound, but pending further study of the matter, we are not prepared at this time to state our specific objections."