STOCK EXCHANGE PRACTICES

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE
COMMITTEE ON BANKING AND CURRENCY
UNITED STATES SENATE

SEVENTY-SECOND CONGRESS

SECOND SESSION

ON

S. Res. 84 and S. Res. 239

RESOLUTIONS TO THOROUGHLY INVESTIGATE PRACTICES OF STOCK EXCHANGES WITH RESPECT TO THE BUYING AND SELLING AND THE BORROWING AND LENDING OF LISTED SECURITIES THE VALUES OF SUCH SECURITIES AND THE EFFECTS OF SUCH PRACTICES

PART 4

(KREUGER AND TOLL)

JANUARY 11 AND 12, 1933

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STOCK EXCHANGE PRACTICES

WEDNESDAY, JANUARY 11, 1933

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The subcommittee met, pursuant to call of the chairman, at 10 o'clock a. m., in the hearing room of the committee, Senate Office Building, Senator Peter Norbeck presiding.

Present: Senators Norbeck (chairman), Townsend, Blaine, Fletcher, and Costigan, and John Marrinan, economic adviser to the committee.

Present also: Senators Walcott, Watson, Carey, Goldsborough, Gore, and Reynolds.

The CHAIRMAN. The committee will come to order. This hearing has been called on the subject of the Kreuger & Toll bond issue, which issue was headed in whole or in part in this country, and is said to have been for $50,000,000. I have been informed that it was a bond issue based upon a certain bunch of collateral. When those were deposited with the trustee it was done under a written agreement providing that there might be substitutions. The usual phrase was not used, substituting securities of like value, but substitutions were permitted on a basis of par value. I think the evidence will show plainly that good securities were taken out and poor securities substituted, with the result that the value of this bond issue has gone down to almost nothing. The issue I am told was approved by the Lee-Higginson banking house, by their attorneys, by attorneys for the New York Stock Exchange, and by the listing committee of the New York Stock Exchange.

If there is anything further to be said on this matter before the committee begins examination of witnesses, Mr. Marrinan can complete the statement. He has been investigating the case.

Mr. MARRINAN. Mr. Chairman, I believe you have painted the picture in its essentials. In so far as my examination may proceed I should like the members of the committee to understand that although this Krueger & Toll picture is a very broad one, our investigation has been confined to an examination of the situation surrounding this so-called 5 per cent secured sinking-fund gold debenture issue.

Senator WALCOTT. Please put in the record the dates of issue and maturity.

Mr. MARRINAN. I expect to develop all those facts, Senator Walcott.

Senator WALCOTT. All right.

Mr. MARRINAN. In so far as I have proceeded with the investigation, I have examined the situation all along the line to ascertain if at any place there were safeguards set up for the investor. I think

it fair to say that that will be the general tenor of my examination, in so far as the committee may wish to proceed.

I shall try to ascertain whether the sponsoring bankers performed their functions intelligently in this matter. Have reasonable steps been taken to keep the investing public informed regarding the status of Kreuger & Toll's affairs? Has the New York Stock Exchange exercised diligence in performing its function as the instrumentality between, on the one hand, the company and its sponsoring bankers, and, on the other hand, the public? Has the press, which we find participated generally in this gigantic deception, had an opportunity to protect itself against misinformation? Have the lawyers involved acted not only with professional integrity but have they given due regard to questions of their moral responsibility to the public?

We all know that Kreuger was a great swindler. We are beginning to realize that at the same time he was a great gambler. We are finding evidence of his gambling which it would appear ought to have been manifest long ago to some of the institutions involved had they been reasonably diligent.

Gentlemen of the committee, there are some contingent matters of importance. We may discover in this general situation, which I will try to present to you through the testimony of qualified witnesses, opportunities for reform in the regulations and practices of the New York Stock Exchange.

The question may conceivably arise, granting that the New York Stock Exchange desires such reforms, has it the power to effect the reforms that should be instituted?

Now, we have summoned as our first witness Mr. Donald Durant, who probably knows more about this Kreuger & Toll situation than any other American. I will ask Mr. Durant to come forward, please.

The CHAIRMAN. Mr. Durant, you may take a seat right opposite the committee reporter. And now you will stand, hold up your right hand and be sworn.

You do solemnly swear that you will tell the truth, the whole truth, and nothing but the truth, regarding the matters now under investigation by this committee, so help you God?

Mr. DURANT. I do.

TESTIMONY OF DONALD DURANT, CORNWALL-ON-THE-HUDSON, N. Y.; MEMBER OF FIRM OF LEE, HIGGINSON & CO., NEW YORK CITY

(The witness was duly sworn by the chairman, as shown above.)

The CHAIRMAN. Mr. Durant, you will first give your name, address, and occupation.

Mr. DURANT. Donald Durant, Cornwall-on-the-Hudson, N. Y.; member of the firm of Lee, Higginson & Co., 37 Broad Street, New York City.

Mr. MARRINAN. Mr. Durant, you have been a director of the Kreuger & Toll Co., isn't that true?

Mr. DURANT. That is correct.

Mr. MARRINAN. Are you still a director of that company?

Mr. DURANT. Well, I have never resigned. Yes; I am still a director.

Mr. MARRINAN. How long have you been a director in that company?

Mr. DURANT. Since about the middle of 1929, I believe.

Mr. MARRINAN. You are also a director of International Match and of the Swedish American Investment Co., are you not?

Mr. DURANT. I was a director of the Swedish American Investment Co. but am no longer. That company changed its functions.

Mr. MARRINAN. You are also a director, or at least a partner in the firm of Lee, Higginson & Co., are you not?

Mr. DURANT. That is correct, that I am a partner.

Mr. MARRINAN. That is one of the older and you might say veteran New England investment banking houses, is it not?

Mr. DURANT. Well, it was formed about 1848.

Mr. MARRINAN. Before it undertook its expansion in recent years it was essentially a Boston institution, is that correct?

Mr. DURANT. Well, it was started as a Boston institution. I do not know just what you mean by "recent years." The New York office, for instance, has been going for, I think, almost 30 years; for 27 or 28 years, at least.

Mr. MARRINAN. When would you say it was that the New York office became, or did it so become, more important to the institution than the Boston office?

Mr. DURANT. Well, that would be a matter of opinion, as to the question of what importance it is. I am not sure that it was ever more important.

Mr. MARRINAN. It is relatively of small importance, except as a part of the company, I take it. Now, Mr. Durant, how long have you been associated with Lee, Higginson & Co.?

Mr. DURANT. About 24 years.

Mr. MARRINAN. How long have you been a partner in the business?

Mr. DURANT. My recollection is that it would be about 10 years, 9 or 10 years.

Mr. MARRINAN. Will you tell the committee, if you please, aside from such banking experience and acquaintance as you have gained in the business, what was the nature or the technical character of your preparation for the banking business?

Mr. DURANT. My preparation for the banking business?

Mr. MARRINAN. Yes.

Mr. DURANT. Well, I came out of college and got a position as office boy in Lee, Higginson & Co., and with them is the only position I ever had. I worked at the most of the branches of the business.

Mr. MARRINAN. Very well. I think you have already answered what I had in mind on that point quite fully.

Senator FLETCHER. Who are the other partners in the firm of Lee, Higginson & Co.?

Mr. DURANT. There are 16 partners in all, Senator. Mr. George C. Lee, of Boston——

Senator FLETCHER. Suppose you just furnish for the record a list of them, and it may be incorporated later on.

Mr. DURANT. I shall be glad to do that.

Mr. MARRINAN. Mr. Durant, at the time you became a director of the Kreuger & Toll Co. were you acquainted with the mechanism and the legal conditions under which the security business is conducted generally abroad?

Mr. DURANT. Well, that is a pretty sweeping question. I really do not know just what that question means, Mr. Marrinan, although I should like to try to answer it.

Mr. MARRINAN. I will request that the committee reporter repeat the question to Mr. Durant.

(The reporter read the question.)

Mr. DURANT. I had had something to do indirectly with various issues for foreign companies, but had never had any experience with the operation of an office abroad.

Mr. MARRINAN. Were you able at the time when you became a director of the Kreuger & Toll Co. to make at least a shrewd guess as to the intrinsic value of the various issues of foreign securities offered in the public markets?

Mr. DURANT. Well, I thought I knew something about judging the merits of the issues.

Mr. MARRINAN. Were you fairly well acquainted with political conditions abroad and able to interpret such conditions in terms of the ability of a going concern to operate?

Mr. DURANT. Well, I have never pretended to be an expert on political conditions.

Mr. MARRINAN. And yet political conditions are rather important in their relation to foreign issues, are they not?

Mr. DURANT. Perhaps important in the getting of foreign issues, of foreign Government bonds, but the bond speaks for itself as an obligation.

Mr. MARRINAN. But the guarantor is really the Government, and political conditions in turn have considerable influence over the situation; is not that the fact?

Mr. DURANT. You mean as to whether a Government bond might default, or not, or something of that sort?

Mr. MARRINAN. Yes, sir. Will you explain the general arrangements for the flotation of the issue of $50,000,000 of Kreuger & Toll so-called 5 per cent secured gold debentures?

Mr. DURANT. I will try to do so. The company started negotiations for these $50,000,000 of bonds in the early part of 1929. Only approximately half of the issue was to be sold in this country. The annual report for the year ending 1928 in due course was to come out in the spring of 1929 according to the custom of the company, so that we did not have at that time the final figures for 1928, although of course we had the published annual reports of the Kreuger & Toll Co. ever since its inception in 1911. And, incidentally, I have those here if the committee would like to have those made a part of the record.

Mr. MARRINAN. Pardon me, if I may interrupt you for a moment.

Mr. DURANT. Certainly.

Mr. MARRINAN. Perhaps I did not make my question clear enough. What I had in mind was the mechanics, the set-up for the flotation of the issue, and not a complete historical record of the transaction. I expect to develop that latter fact perhaps a bit more clearly to the members of the committee through my examination. I want to show, if you please, what was the arrangement between the Kreuger & Toll Co. and Lee, Higginson & Co. with respect to the flotation of those bonds, and how you went ahead to do the job, what the underwriting fees were, and what houses participated.

Mr. DURANT. The purely mechanical part of it?

Mr. MARRINAN. Yes, the mechanics of the operation.

Mr. DURANT. Well, briefly, the mechanics were that we bought the issue at 98 less 3½ per cent, I mean gross. Twenty-six million five hundred thousand dollars of the issue were bought for sale in this country. The rest of it was bought by a syndicate, and the leader of it was the largest private banking institution in Sweden, Skandinaviska Kreditaktiebolaget.

Mr. MARRINAN. Am I correct in understanding that that means Scandinavian Credit Share Co.?

Mr. DURANT. I believe that is right, Mr. Marrinan, but I am not a Swedish translator.

Mr. MARRINAN. If the committee will permit me to use that translation I should like permission to refer to it in English, if that statement is correct, because I can not wiggle my tongue around that combination of words.

The CHAIRMAN. All right, Mr. Marrinan, proceed along that line.

Mr. MARRINAN. Mr. Durant, what houses participated with Lee, Higginson & Co. in the flotation of this issue?

Mr. DURANT. Well, there were with us the National City Co., the Guaranty Co., Messrs. Brown Bros., Clark Dodge & Co., Dillon Read & Co., and Union Trust Co. of Pittsburgh. I believe that is the list of names that appeared. But I have that information and can furnish you the exact list in the order in which they appeared. If you want me to do that I will be glad to do so.

The CHAIRMAN. You will be given an opportunity to read over your testimony and make it correct if that is not a correct list.

Mr. DURANT. I thank you.

Mr. MARRINAN. I will say for the benefit of the committee that I think I have a correct list, which I will ask the committee to have incorporated in the record in a minute. But I will submit it for your identification, Mr. Durant, before doing so.

Mr. DURANT. All right.

Mr. MARRINAN. It has been widely held that this security was a bond. Is that the fact?

Mr. DURANT. I believe so.

Mr. MARRINAN. From your knowledge of investment terminology what would you say was the difference, if there is any, between a secured debenture and a bond?

Mr. DURANT. I think they are both bonds. A bond to my mind is a promise to pay.

Mr. MARRINAN. Am I correctly advised that there were three stock exchange firms engaged in this flotation?

Mr. DURANT. I think that is correct.

Mr. MARRINAN. And those firms were Lee, Higginson & Co., Brown Bros. & Co., and Clark Dodge & Co.?

Mr. DURANT. Yes, sir.

Mr. MARRINAN. At this point, gentlemen of the committee, I should like to insert in the record, with your permission, a list of the directors of the participating houses. There are some rather distinguished gentlemen in the list. There should have been considerable financial genius in the assemblage of gentlemen who as directors of the various houses of issue had some responsibility for their participation in this issue. I note, among others, Mr. Charles E. Mitchell,

of the National City Co., and Mr. Percy Rockefeller, and others perhaps of scarcely less distinction in financial circles. I will ask the committee reporter to identify this exhibit by giving it a number, and, if it is the wish of the committee, you may postpone decision as to what you wish included in the record.

Mr. Durant, suppose you look at these papers, and I will suggest that you might make them your own exhibits.

Mr. DURANT. What are they?

Mr. MARRINAN. Those papers contain lists of directors taken from Poor's Register of Directors for 1929.

Mr. DURANT. If it is the same to you I will leave it until I can check them up, or you can put them in if you desire at this time.

Mr. MARRINAN. Mr. Chairman, then I will submit those as an exhibit for the record.

Senator FLETCHER. You offer these lists, Mr. Marrinan, and Mr. Durant may make any corrections or additions if he finds it necessary.

Mr. MARRINAN. That is taken from the list published in Poor's Register of Directors as of 1929, and therefore I assume is correct.

The CHAIRMAN. If there is no objection, that data will be incorporated in the record of the hearing.

(The data furnished by Mr. Marrinan is here made a part of the record, as follows:)

KREUGER & TOLL (HOUSE OF ISSUE)

Lee Higginson & Co., Guaranty Co. of New York, Brown Bros. & Co., Clark Dodge & Co., National City Co., Dillon, Read & Co., Union Trust Co. of Pittsburgh.

LEE HIGGINSON & CO.

George C. Lee (member of the exchange), N. Penrose Hallowell, Francis L. Higginson, Frederic W. Allen, Charles H. Schweppe, Sir W. Guy Granet, Jerome D. Greene, Robert Grant, jr., Barrett Wendell, jr., James Nowell, Charles E. Cotting, Donald Durant, George Murnane, Edward H. Osgood, William McCormick Blair, Edward N. Jesup, Ralph Lowell.

CLARK, DODGE & CO.

Partners, 1929: Messrs. Donald G. Geddes, George Blagden (special), Arthur O. Choate, George Crawford Clark, Louis C. Clark, jr., Joseph P. Bradshaw, Edward T. H. Talmage, jr. (member of the exchange), Carl Egner, Benjamin D. Mosser, H. Nelson Walker, David McAlpin.

BROWN BROTHERS & CO.

Partners, 1929: Messrs. James Brown, James Crosby Brown, Thatcher Magoun Brown (member of exchange), Moreau Delano, Louis Curtis, John Henry Hammond, Ray Morris, Louis Curtus, jr., Charles Denston Dickey, Ellery Sedgwick James, Robert Abercrombie Lovett, Ralph T. Crane.

(The above lists were taken from the New York Stock Exchange Directory as of September, 1929.)

GUARANTY CO. OF NEW YORK

[Moody's Banks and Finance, 1929, p. 515]

C. H. Sabin, W. C. Potter, J. R. Swan, M. P. Callaway, W. P. Conway, H. F. Greene, R. F. Loree, J. L. O'Neill, F. H. Sisson, E. W. Stetson, Burnett Walker, W. H. Booth.

NATIONAL CITY CO.. (NEW YORK, N. Y.)

[Moody's Banks and Finance, 1929, p. 821]

Directors: E. P. Swenson (chairman), C. E. Mitchell, P. A. Rockefeller, J. P. Grace, Beekman Winthrop, James A. Stillman, N. F. Brady, G. S. Rentschler, Garrard S. Winston.

THE UNION TRUST CO. OF PITTSBURGH

[Moody's banks and finance, 1929, p. 606]

Directors: J. Frederic Byers, George W. Crawford, Arthur V. Davis, Henry C. Fownes, Childs Frick, A. L. Humphrey, Roy A. Hunt, Benjamin F. Jones, 3d, James H. Lockhart, J. Marshall Lockhart, Richard B. Mellon, Richard K. Mellon, William L. Mellon, Henry C. McEldowney, Lewis A. Park, Howard Phipps, David A. Reed, William C. Robinson, William B. Schiller, George E. Shaw, Arthur W. Thompson, Frank M. Wallace, Homer D. Williams.

DILLON, READ & CO.

Officers, 1929: Messrs. Clarence Dillon, Roland L. Taylor (Philadelphia) (member Philadelphia Stock Exchange), William A. Phillips, W. M. L. Fiske, Edward J. Bermingham (Chicago), Dean Mathey, Ralph H. Bollard, Westmore Wilcox, jr., Robert O. Hayward, Henry G. Riter, 3d, William Slater Charnley (Los Angeles), Robert E. Christie, jr., Joseph H. Seaman, William A. Read, jr., J. V. Forrestal, Albert M. Barnes, Duncan H. Read, Ferdinand Eberstadt, Clifton MacPherson Miller.

Mr. MARRINAN. Mr. Durant, how much money did Lee, Higginson & Co. make in floating this issue? And in answering I do not want to split fractions in the matter, but want you to give the round figure.

Mr. DURANT. All right, sir. In the issue of $26,500,000 floated here, Lee, Higginson & Co. made approximately $130,000 for underwriting profit gross, and approximately $220,000 I would say as compensation for sales made, making roughly our total of about $365,000 gross, out of which, of course, the expenses of the organization had to be taken.

Mr. MARRINAN. Were there any additional amounts which as a matter of accounting might be credited to this issue, — say additions which might be properly traceable as a benefit to your firm in consequence of the flotation of this issue.

Mr. DURANT. I do not recall any at the moment.

Mr. MARRINAN. Did you have any proceeds of the issue in your custody as bankers from which you might have derived an income during any part of the life of the flotation or while the flotation was proceeding?

Mr. DURANT. That might be quite possible. I will say that I did not look that point up and therefore I do not know.

Mr. MARRINAN. Would you charge in your system of accounting such benefit or money as a part of this picture?

Mr. DURANT. Oh, no. It would be entirely a banking transaction, in the banking department, and it would be paid interest on it. It would be impossible for me to say whether it was a profit or a loss.

Senator FLETCHER. Mr. Durant, you used the word "underwriting." Did Lee, Higginson & Co. underwrite this $26,500,000?

Mr. DURANT. We bought it; yes, sir.

Senator FLETCHER. What was that?

Mr. DURANT. We bought it and carried the risk.

Senator FLETCHER. You bought it?

Mr. DURANT. Yes; with associates.

Senator FLETCHER. When you sold them did you sell them without recourse or did you guarantee the bonds?

Mr. DURANT. When the final syndicate was made up, to the dealers throughout the country, then the risk was assumed by the dealers.

The CHAIRMAN. And the reason for that was that you sold them the bonds and did not guarantee the payment of the bonds?

Mr. DURANT. Oh, no. We did not guarantee the bonds. We were just guaranteeing the sale of the bonds. We were underwriting the issue in that sense.

Senator FLETCHER. You did not become obligated in any way to pay the bonds?

Mr. DURANT. No, sir.

Senator FLETCHER. Or any of them?

Mr. DURANT. No, sir.

Mr. MARRINAN. Did Lee, Higginson & Co. directly act as brokers as well as the issuing house in any transactions involved in this issue?

Mr. DURANT. I do not understand just what that question means.

Mr. MARRINAN. Well, were you involved in any transactions in which you got brokerage commissions in addition to the underwriting fees and commissions?

Mr. DURANT. We got underwriting fees for selling the issue primarily. Now, after that undoubtedly if anyone had given us a commission to buy or sell those bonds there would be a commission on the transaction. Is that what you mean?

Mr. MARRINAN. Yes.

Mr. DURANT. It would be just like the case of any other bond.

Mr. MARRINAN. Then you do a very considerable brokerage business in addition to having such income as you might derive from the flotation of the issue?

Mr. DURANT. I think that is a fair statement; yes.

Mr. MARRINAN. I have at this point an exhibit which I should like to have inserted in the record, which was furnished to me by Lee, Higginson & Co. And I might say, gentlemen of the committee, that Lee, Higginson & Co. have been very courteous in furnishing anything I asked for, and if I lack anything here in the way of exhibits or of facts or figures, it is not the responsibility of Lee, Higginson & Co., but rather my own lack of genius in asking for the documents. I have here a schedule of issues of the Kreuger & Toll Co. and International Match Corporation securities offered in the United States, which was prepared for me in the office of Lee, Higginson & Co., of New York, which I should like to have inserted in the record at this point. It is not a long document.

The CHAIRMAN. That may be done.

(The paper referred to is here made a part of the record, as follows:)

SCHEDULE OF ISSUES OF KREUGER & TOLL CO. AND INTERNATIONAL MATCH CORPORATION SECURITIES MADE IN THE UNITED STATES

(NOTE.—There were no public offerings, in the United States, of any securities of Swedish Match Co.)

KREUGER & TOLL CO.

(1) September, 1928: A total of 45,000,000 kroner par value participating debentures offered as follows: Approximately 17,917,800 kroner par value in exchange for preferred stock of Swedish American Investment Corporation; 8,500,000 kroner par value for subscription by old holders of participating debentures and shares of Kreuger & Toll Co.; approximately 18,582,200 par value for public subscription. The subscription price on the last two blocks was 525 per cent of par, or a total of 142,181,550 kroner (approximately $38,000,000, at par of exchange). Of the block of approximately 18,582,200 kroner par value 10,000,000 kroner was offered in the United States in the form of American certificates at a total price of $14,070,000.

Lee, Higginson & Co., Brown Bros. & Co., and Clark Dodge & Co. made the offering of participating debentures (in the form of American certificates) for the Swedish American Investment Corporation participating stock. Lee, Higginson & Co., Guaranty Co. of New York, the National City Co., Brown Bros. & Co., Dillon Read & Co., Clark Dodge & Co., and the Union Trust Co. of Pittsburgh offered the 10,000,000 kroner participating debentures (in the form of American certificates) for public subscription in the United States.

(2) March, 1929: 16,250,000 kroner par value participating debentures offered for subscription by old holders of participating debentures and shares at 600 per cent of par: A total price of 97,500,000 kroner (approximately $26,000,000, at par of exchange). Our records show that approximately 7,600,000 kroner par value of debentures were subscribed for in the United States, equivalent, at the subscription price, to approximately $12,300,000. This offering was underwritten by a syndicate headed by Lee, Higginson & Co., New York, Higginson & Co., London and Skandinaviska Kreditaktiebolaget, Stockholm.

(3) $50,000,000 par value 5 per cent secured debentures offered for public subscription at 98, or $49,000,000. The entire offering was underwritten by an international syndicate and approximately $27,000,000 par value (equivalent, at the issue price of 98, to $26,460,000) of the issue was offered in the United States by a syndicate composed of Lee, Higginson & Co., Guaranty Co. of New York, the National City Co., Brown Bros. & Co., Dillon Read & Co., Clark Dodge & Co. and the Union Trust Co. of Pittsburgh.

(4) October, 1929: 37,916,660 kroner par value participating debentures and 10,833,400 kroner par value shares offered for subscription by old holders of participating debentures and shares, at prices of 429 per cent of par for the new debentures and 405 per cent for the shares. At the same time 166,600 kroner par value shares were privately sold at a price of 600 per cent. At these prices, these issues totaled 207,537,341 kroner (approximately $55,600,000, at par of exchange).

Our records show that subscription in the United States totaled, at the subscription price, approximately $17,700,000. Both offerings were underwritten by an international syndicate, the members of the American group including Lee, Higginson & Co., Guaranty Co. of New York, the National City Co., Brown Bros. & Co., Dillon Read & Co., Clark Dodge & Co., and the Union Trust Co. of Pittsburgh.

(5) The American syndicate named in the preceding paragraph purchased an additional 20,000,000 kroner par value participating debentures at $28,000,000.

SWEDISH AMERICAN INVESTMENT CORPORATION

The preferred stock of this corporation, in exchange for which American certificates representing Kreuger & Toll participating debentures were offered in September, 1928, was originally offered as follows:

(6) December, 1925: $15,000,000 par value offered for public subscription at 99 per cent of par, or $14,850,000. Our records show that approximately $12,400,000 par value of the issue was offered for subscription in the United States (at 99 per cent, equivalent to $12,276,000).

(7) March, 1927: $3,000,000 par value offered for public subscription at 108 per cent of par, or $3,240,000. Our records show that approximately $2,500,000 par value of the issue was offered for subscription in the United States (at 108 per cent, equivalent to $2,700,000).

Both of these offerings of Swedish American Investment Corporation preferred stock were made by a syndicate consisting of Lee, Higginson & Co., Brown Bros. & Co., and Clark Dodge & Co.

RECAPITULATION

	Total	United States
Paragraph:		
(1)	$38,000,000	$14,070,000
(2)	26,000,000	12,300,000
(3)	49,000,000	26,460,000
(4)	55,600,000	17,700,000
(5)	28,000,000	28,000,000
(6)	14,850,000	12,276,000
(7)	3,240,000	2,700,000
Total	214,690,000	113,506,000

INTERNATIONAL MATCH CORPORATION

(1) October, 1923: $15,000,000 par value 6½ per cent debentures offered for public subscription at 94½, or $14,175,000. Our records show that approximately $870,000 par value of this issue was offered abroad, equivalent, at the issue price of 94½, to approximately $822,000.

The offering syndicate consisted of Lee, Higginson & Co., Guaranty Co. of New York, the National City Co., Brown Bros. & Co., and Dillon Read & Co.

(2) December, 1924: 450,000 shares of participating preference stock offered in exchange for above 6½ per cent debentures then outstanding.

(3) July, 1925: 450,000 shares participating preference stock offered for subscription by old holders at $45 per share, a total price of $20,250,000. Our syndicate records show that foreign subscription totaled approximately 55,320 shares, equivalent, at the issue price of $45, to approximately $2,489,000.

(4) November, 1926: 450,000 shares participating preference stock offered for subscription by old holders at $50 per share, a total price of $22,500,000. Our syndicate records show that foreign subscription totaled approximately 65,790 shares, equivalent, at the issue price of $50, to $3,290,000.

The foregoing three offerings of participating preference stock were underwritten by a syndicate consisting of Lee, Higginson & Co., Guaranty Co. of New York, the National City Co., Clark Dodge & Co., Brown Bros. & Co., Dillon Read & Co., and the Union Trust Co. of Pittsburgh.

(5) November, 1927: $50,000,000 par value 5 per cent debentures offered for public subscription at 98½, or $49,250,000. Our records show that approximately $2,911,000 par value of this issue was offered abroad, equivalent, at the issue price of 98½, to approximately $2,867,000.

The offering syndicate consisted of Lee, Higginson & Co., Guaranty Co. of New York, the National City Co., Brown Bros. & Co., Dillon Read & Co., Clark Dodge & Co., and the Union Trust Co. of Pittsburgh.

(6) January, 1931: $50,000,000 par value 5 per cent debentures offered for public subscription at 96, or $48,000,000. Our records show that approximately $2,480,000 par value of this issue was offered abroad, equivalent, at the issue price of 96, to approximately $2,381,000.

The offering syndicate consisted of Lee, Higginson & Co., Guaranty Co. of New York, the National City Co., Brown Bros. & Co., Dillon Read & Co., Clark Dodge & Co., and the Union Trust Co. of Pittsburgh, and Bankers Co. of New York.

RECAPITULATION

	Total	United States
Paragraph:		
(1)	$14,175,000	$12,353,000
(3)	20,250,000	17,761,000
(4)	22,500,000	19,210,000
(5)	49,250,000	46,383,000
(6)	480,000,000	45,619,000
Total	154,175,000	142,326,000

Mr. MARRINAN. Mr. Durant, what would you say was the correct total par value of the issues of Kreuger & Toll securities floated in the United States by Lee, Higginson & Co.?

Mr. DURANT. Well, that is a little hard to give offhand. Do you mean just the part handled by Lee, Higginson & Co., or the syndicates which we headed?

Mr. MARRINAN. The syndicates which you headed.

Senator COSTIGAN. When were those bond sales made, in what year?

Mr. DURANT. Of Kreuger & Toll in 1928 was the first sale, if my memory is correct, with some American certificates representing participating debentures. The exact par value of that, Mr. Marrinan, I forget. Do you mean, do I have it here?

Mr. MARRINAN. I believe that figure is in the exhibit.

Mr. DURANT. I think it probably is.

Senator COSTIGAN. You are not including in that statement any reference to International Match sales?

Mr. DURANT. No, sir.

Mr. MARRINAN. Mr. Durant, are you able to estimate the American losses at the current position of the market, status quo, between the American and the Swedish interests?

Senator WATSON. Right there let me ask: For how long a period of time were you selling those bonds?

Mr. DURANT. Do you mean this particular issue, Senator?

Senator WATSON. Yes.

Mr. DURANT. My recollection is that the syndicate lasted for 90 days, which is the usual length of time for a syndicate.

Senator WATSON. Did you take them over originally as Lee, Higginson & Co., or did others join with you in the original undertaking?

Mr. DURANT. Lee, Higginson & Co., Skandinaviska Kreditaktiebolaget, and Higginson & Co. of London. Then it was divided, with the Skandinaviska Kreditaktiebolaget, they headed the Swedish, or I should say the European syndicate. And we headed the syndicate which I have just described.

Senator WATSON. When did these other firms or establishments in this country enter into the undertaking?

Mr. DURANT. In March of 1929.

Senator COSTIGAN. What were the figures shown there?

Mr. JOSEPH M. PROSKAUER. Here is a duplicate of that statement, Senator, if it will be of any benefit to you.

Senator COSTIGAN. I thank you.

Senator GORE. You have stated all of the members of the American syndicate?

Mr. DURANT. No; as I thought the question was, as put to me, I stated the so-called managers of the American syndicates, the names of those who appeared on the prospectus.

Senator GORE. Will you attach to that a list of those that participated?

Mr. DURANT. I will be very glad to do so. It is numbered 385, I believe.

Mr. PROSKAUER. I might say——

Mr. MARRINAN. Will you now please answer the question, Mr. Durant, which was——

Senator GORE (interposing). In how many States and cities?

Mr. PROSKAUER (interposing). I could say——

The CHAIRMAN (interposing). Now, I think we better start having order here. We are not going to let a visitor who has come into the room, and who has not been called upon, take part in the hearing. If there is anything of importance you can address the Chair, and if it is important, you will be treated courteously. But the committee reporter is trying to get the name of the gentleman who broke in, and it is impossible to conduct our proceedings properly if outsiders are butting in.

Senator GORE. Mr. Chairman, I am responsible for that, I suppose.

Mr. PROSKAUER. I am glad that Senator Gore made that statement. He asked a question, which I assumed was asked on behalf of the committee. It was answered as a question put, as I thought to me, as he was looking this way, by a member of the committee. I

assumed that Senator Gore is sitting as a member of the committee and therefore is entitled to ask questions. And I took it that he asked the question directly of me.

The CHAIRMAN. It was very polite of Senator Gore to take all of the responsibility in this case, but the gentleman sitting back there started it as a matter of fact. Now let us get along.

Mr. MARRINAN. Mr. Durant, I believe I asked: "Are you able to estimate the American losses"?

Mr. DURANT. No. I could not estimate that because I do not figure it is possible to determine them to-day.

Mr. MARRINAN. You would not even venture a guess?

Mr. DURANT. It would hardly be worth while, I take it.

Mr. MARRINAN. I have heard various estimates, from between $300,000,000 on upwards.

Mr. DURANT. I do not see how anyone can guess as to that with any degree of accuracy, not until after the whole complicated situation is worked out, and there are reorganizations, which are very important, and it is decided what assets can be recovered in the situation.

Senator FLETCHER. What are those securities worth to-day?

Mr. DURANT. Those bonds?

Senator FLETCHER. Yes.

Mr. DURANT. That is very hard to say, what they are worth. Do you mean market value?

Senator FLETCHER. Yes; or any value.

Mr. DURANT. The market value I think is only around 14, although I have not looked it up recently. But those bonds are secured by a deposit of other bonds, Government bonds, which up to a year ago I think, or a little over a year ago, were all paying their interest. Now some of them are not. Some are paying their interest but there is involved a transfer problem. The Hungarian interest is being paid in Hungary in a blocked account to the Government, and as the Senators no doubt know, it is impossible now to get money out of Hungary. The Government will not transfer funds so that interest is not available. But if you mean the payment of interest on those bonds, it is being paid in Hungary, and the bonds are not in default. Do you mean income from the collateral that is actually being transmitted to this country? My recollection is about one-third necessary for the interest, but the most of it is accumulating in the countries, and when the transfer problem is solved I have no doubt the amounts will then come out.

Senator WALCOTT. Is the interest payable in gold?

Mr. DURANT. I believe in all cases; yes.

Senator WALCOTT. And the American issues in dollars?

Mr. DURANT. Yes, sir.

Senator FLETCHER. So that if I had one of those bonds, which I have not, unfortunately, or perhaps fortunately, I might say, I could possibly get 14 cents for it to-day?

Mr. DURANT. Oh, yes; you could to-day, for I believe that is the market.

Senator WALCOTT. Did you mean 14 cents?

Mr. DURANT. Oh, no. That would be 14 per cent, or on a $1,000 bond it would be $140.

Mr. MARRINAN. It has been stated that under the competitive processes of American investment bankers some bankers largely perform the function of merchandisers of securities. How far is it fair to accept that view?

Mr. DURANT. Well, it is a question of definition. Almost any banker who buys securities has to merchandise them, either wholesale or retail, because American bankers do not buy entire blocks of issues for their own portfolios. So in the conduct of the business as I know it they are essentially merchants. I wouldn't know just how to separate or explain that situation any more than that.

Mr. MARRINAN. In merchandising, of course, they have to follow the practices of marketing rather than the practices of banking, isn't that true?

Mr. DURANT. I would not think it was inconsistent in the merchant, who is very careful of and has a pride in the product he is selling, so that he did not interfere with any proper banking principles in making the issue.

Mr. MARRINAN. Are you familiar with the provisions of the debenture agreement in connection with the flotation of this issue of 5 per cent secured debentures?

Mr. DURANT. I am reasonably familiar, although perhaps not in every detail.

Mr. MARRINAN. Who drafted the agreement, please?

Mr. DURANT. When we wanted that agreement drafted we had the benefit of the following counsel——

Mr. MARRINAN (interposing). That was to be my next question. Who drafted the agreement in its inception, counsel or the company, or who started it?

Mr. DURANT. Well, I would have to speak from recollection, subject to correction. I should say it was probably started by counsel, with Lee, Higginson & Co., rather than the company. We were setting up the indenture. Who it was just made the first conversations I do not recall, Mr. Marrinan, but that indenture——

Mr. MARRINAN (interposing). Mr. Durant, we will have later witnesses who I think will be able to clear that point up. By whom was the legal opinion given?

Senator GORE. Will you put a copy of the agreement in the record, Mr. Marrinan?

Senator COSTIGAN. Of the indenture do you mean, Senator Gore?

Senator GORE. Yes.

Senator COSTIGAN. I think I can answer, Senator Gore, that it will be put in.

The CHAIRMAN. What was that?

Senator COSTIGAN. Senator Gore wants to know if a copy of the agreement will be put in the record.

Mr. MARRINAN. The chairman wishes me to clear up the record to the extent of making the statement that the indenture referred to in that question is the so-called debenture agreement between the Kreuger & Toll Co., the fiscal agents Lee, Higginson & Co., and the trustee, Lee, Higginson Trust Co. of Boston, under the provisions of which this whole transaction proceeded.

Now, Senator Gore, in answer to your question, it was my intention to insert in the record as an exhibit, subject to the pleasure of the committee, of course, a copy of this debenture agreement at the

time when a member of the counsel who participated in this transaction is called to the stand.

Senator GORE. That will be all right with me.

Mr. DURANT. Might I finish answering that question?

Mr. MARRINAN. Yes.

Mr. DURANT. It was prepared by counsel. There were two firms in this country, Messrs. Carter, Ledyard & Millburn, and Ropes, Gray, Boyden & Perkins, of Boston. And we were particularly fortunate, we thought, in being able to get a former partner of Ropes, Gray, in the person of Mr. Leon Fraser, whom you will all remember, I think, as counsel to the Reparations Commission, and then in Europe. He was often in Paris, and the final work on this debenture agreement was done by the lawyers there with Mr. Leon Fraser representing us; and at the request of counsel we had had eminent legal advice from Sweden in the person of Mr. Loefgren, who came to Paris to advise or counsel on points of Swedish law.

Mr. MARRINAN. In connection with the various discussions and conferences on the drafting of the debenture agreement do you recall any consideration given to questions of how adequately investors were to be safeguarded under its provisions?

Mr. DURANT. I think that was the gist of the most of the conferences, or I should say so. Certainly it was in everybody's mind.

Mr. MARRINAN. Are you familiar with the so-called substitution provisions wherein the Kreuger & Toll Co. were permitted to exchange or withdraw or substitute the pledged collateral?

Mr. DURANT. Yes, sir.

Mr. MARRINAN. If it is the wish of the committee I should like to insert in the record at this point a statement prepared and turned over to me by Lee, Higginson & Co. entitled, "Chronology of Purchase of Substituted Collateral." The face of the memorandum bears a note in pen and ink at the top "Draft, subject to recheck." I should like to have the question raised by that note cleared up through any changes or amendments that may be necessary, if they are necessary, before this finally appears in the record.

The CHAIRMAN. You are now offering that for the record?

Mr. MARRINAN. Yes.

The CHAIRMAN. If there is no objection, it will be made a part of the record.

(The paper referred to is here made a part of the record, as follows:)

CHRONOLOGY OF PURCHASE OF SUBSTITUTED COLLATERAL

Subsequent to the public sale of the secured debentures in March, 1929, the major issues deposited under the debenture agreement were:

Kingdom of Serbs, Croats and Slovenes 6½'s, 1958	$15,000,000
Hungarian land reform mortgage 5½'s, series B, 1979	12,000,000
Kingdom of Rumania Monopolies Institute 7½'s, 1971	2,938,425

Kreuger & Toll Co. purchased the Yugoslavian bonds as follows:

Mar. 23, 1929	$7,000,000
July 23, 1929	7,000,000
Mar. 23, 1930	8,000,000

The $7,000,000 installment purchased March 23, 1929, was included in the collateral originally deposited under the debenture agreement. The remaining installments were deposited on various dates subsequent to their purchase.

The Hungarian land reform mortgage bonds, series B, were purchased by Kreuger & Toll Co. on January 15, 1930, and deposited under the debenture agreement on January 23, 1930.

The Kingdom of Rumania Monopolies Institute bonds were issued publicly in Europe in March, 1931, and presumably those owned by the Kreuger & Toll Co. were purchased subsequent to that date. They were deposited on August 24, 1931.

PLAN FOLLOWED IN MAKING SUBSTITUTIONS

As it was contemplated in the debenture agreement that substitution of eligible securities might at any time be made at the option of the Kreuger & Toll Co. provided the required ratios were maintained, the modus operandi of making such substitutions may be described.

The majority of the securities deposited were lodged with the Skandinaviska Kreditaktiebolaget, the duly authorized depositary under the debenture agreement. This institution is one of the leading banks of Stockholm, and these securities were kept in its custody for greater convenience in the collection of amortization and interest payments and in the making of such substitutions.

The first substitution of securities was made on August 10, 1929, when the Skandinaviska Kreditaktiebolaget advised Lee, Higginson Trust Co. that a par value of approximately $250,000 of securities had been released to Kreuger & Toll Co. against the deposit of $500,000 of Yugoslavian 6¼'s. This transaction being in accord with the terms of the agreement, Lee, Higginson Trust Co. wrote the depositary on August 26, 1929, that these changes had been duly noted.

Such was the usual practice in the making of all similar substitutions. Frequent minor changes in the exact amount of securities on deposit were occasioned by amortization payments, and these were duly confirmed by correspondence between Skandinaviska Kreditaktiebolaget and Lee, Higginson Trust Co. The total amount on deposit at various times was also periodically reported by the depositary and careful check made by the trust company to see to it that the records agreed.

The first large substitution was on January 21, 1930. On that date Lee, Higginson Trust Co. received a cable from Skandinaviska Kreditaktiebolaget as follows:

"Kreuger & Toll desire withdraw from collateral for secured debentures 60,000,000 French francs, Republic of France, 3 per cent Rentes; Francs French 144,000,000, Republic of France 4 per cent, 1917; 140,000,000 Republic of France 4 per cent, 1918, against deposit of $12,000,000 Hungarian Land Reform Institute, series B, 5½ per cent, 1979; and $1,000,000 Kingdom of Serbs, Croats, and Slovenes 6¼ per cent, 1958. Cable approval urgently."

To which Lee, Higginson Trust Co. responded by cable in the following terms:

"Refer your cable to-day we confirm substitution collateral assuming substitution conforms to governing provisions contained in indenture dated March 1, 1929."

This cable correspondence was later confirmed by letter from the Skandinaviska Kreditaktiebolaget dated Stockholm, January 24, 1930, to Lee, Higginson Trust Co., as follows:

"Further to our letter of yesterday regarding withdrawal and deposit by Kreuger & Toll Co. of securities in accordance with the debenture agreement dated March 1, 1929, we hereby, for good order's sake, give a specification of the par value and actual interest income, computed in dollars in conformity with the provisions of said debenture agreement, of the collateral held by you and us after having given effect to the transactions described in our above-mentioned letter. As for the securities held by your good selves, we have based our figures on the statements and plans of amortization received from the Kreuger & Toll Co.:

	Par value	Interest income
Yugoslavia 6¼ per cent	$8, 500, 000. 00	$531, 250. 00
Latvia 6 per cent	6, 000, 000. 00	360, 000. 00
Poland 7 per cent	4, 800, 000. 00	336, 000. 00
Rumania Monop. 7 per cent	1, 972, 000. 00	138, 040. 00
Hungarian Land Refunding A 5½ per cent	11, 952, 454. 88	657, 384. 00
Hungarian Land Refunding B 5½ per cent	12, 000, 000. 00	660, 000. 00
Prussian Mortgage Bank 8 per cent	2, 858, 400. 00	205, 804. 00
Greece 8½ per cent, £968,555 at 4.8665	4, 713, 472. 86	400, 645. 00
Rumania 4 per cent, £380,691 at 4.8665	1, 852, 628. 00	74, 105. 00
Belgian National Ry. Co. 6 per cent, preferred	2, 224, 640. 00	133, 478. 00
Ecuador 8 per cent	1, 944, 370. 02	155, 550. 00
Ecuador Mortgage Bank 7 per cent	988, 172. 72	69, 172. 00
Total	59, 806, 138. 48	3, 721, 428. 00

"As, after $375,000, 5 per cent Kreutoll secured debentures having been redeemed on September 1, 1929, through operation of the sinking fund, the total amount of secured debentures now outstanding is $49,625,000, the ratio of principal and the ratio of income are now 120.52 per cent and 150 per cent, respectively.

"We shall be pleased to have your confirmation that you are in agreement with the above figures, * * * "

The next substitution of importance was initiated by cablegram from Skandinaviska Kreditaktiebolaget to Lee, Higginson Trust Co., dated Stockholm, September 12, 1930, as follows:

"Our last letter regarding collateral Kreutoll secured debentures dated August 1. Kreutoll now desire withdraw 80,000,000 Belgian francs Belgian National Railway preference shares and 12,000,000 marks Prussian Mortgage Bank bonds against depositing in substitution $5,000,000 Yugoslavia 6¼ per cent bonds. We find proposed transaction in accordance with indenture dated March 1, 1929, and not imparing stipulated ratios. Kindly confirm our opinion by cable."

To which, on the same day, Lee, Higginson Trust Co. cabled as follows:

"Refer your cable to-day. We confirm substitutions by Kreutoll $5,000,000 Yugoslavia 6¼ per cent bonds for 80,000,000 Belgian francs Belgian National Railway preference shares 12,000,000 marks Prussian Mortgage Bank bonds with understanding proposed transaction conforms to indenture dated March 1, 1929, and does not impair stipulated ratios."

On the same day confirming the cablegram by letter, in which the cable message is repeated and the trust company says:

"According to our records, you now hold the following collateral securing the Kreuger & Toll $50,000,000 debenture issue:

Kingdom of Serbs, Croats, and Slovenes (Yugoslavia) 6¼ per cent, 1958	$13, 500, 000. 00
Republic of Latvia 6 per cent bonds, 1964	6, 000, 000. 00
Republic of Poland 7 per cent bonds, 1945	4, 650, 000. 00
Kingdom of Rumania Monopolies Institute 7 per cent, 1959	1, 935, 700. 00
Hungarian land reform mortgage:	
5½ per cent, 1979 (A)	11, 902, 841. 18
5½ per cent 1979 (B)	12, 000, 000. 00
Republic of Ecuador external loan of 1927 8 per cent, due 1953 [1]	1, 929, 044. 00
Mortgage Bank of Ecuador 7 per cent gold bonds, 1949 [1]	963, 261. 81
	52, 880, 846. 99
Kingdom of Rumania 4 per cent, 1968	£380, 691 0 0
Republic of Greece 8½ per cent, 1954	956, 243 0 9

"Kindly advise us in case this list is not correct."

This list was in due course properly confirmed.

On October 14, 1930, Skandinaviska Kreditaktiebolaget cabled Lee, Higginson Trust Co. as follows:

"Upon request Kreutoll we release to-day out of collateral held under Kreutoll debenture agreement March 1, 1929, £956,243 Greece 8½ per cent bonds against delivery $5,000,000 principal amount Yugoslavia 6¼ per cent bonds due 1958. Kindly confirm receipt by cable."

To which cable, on October 15, 1930, Lee, Higginson Trust Co. replied, likewise by cablegram, as follows:

"Refer your cable yesterday. We confirm substitution by Kreutoll $5,000,000 Yugoslavia 6¼ per cent bonds due 1958 for £956,243 Greece 8½ per cent bonds with understanding proposed transaction conforms to trust indenture and does not impair stipulated ratios."

The foregoing transaction, as in the case of all others, was duly confirmed by mutual exchange of letters.

On January 8, 1931, the status of the collateral held was set forth in a letter from the Skandinaviska Kreditaktiebolaget to Lee, Higginson Trust Co. as follows:

"Further to our letter of the 31st ultimo, regarding the collateral which we held in our capacity of depositary under the Kreuger & Toll Co. debenture agreement dated March 1, 1929, we beg to give you below, for good order's sake, a specification of the par value and actual interest income, computed in dollars in conformity the provision of said debenture agreement, of the collateral held by

[1] Held by Lee, Higginson Trust Co.

you and us. As for the securities held by your good selves we have based our figures on the statements and plans of amortization received from the Kreuger & Toll Co. and on your letter of September 12 last re Ecuador 8 per cent.

	Par value	Interest income
Yugoslavia 6¼ per cent	$22,000,000.00	$1,375,000.00
Latvia 6 per cent	6,000,000.00	360,000.00
Poland 7 per cent	4,500,000.00	315,000.00
Hungarian Land Reform A 5½ per cent	11,902,841.18	654,656.00
Hungarian Land Reform B 5½ per cent	12,000,000.00	660,000.00
Rumania 4 per cent £380,691 at 4.8665	1,852,628.00	74,105.00
Ecuador 8 per cent	1,929,044.00	154,323.00
Ecuador Mortgage Bank 7 per cent	963,261.81	67,428.00
Total	61,147,774.99	3,660,512.00

"As, after $394,000 5 per cent Kreuger & Toll Co. secured debentures having been redeemed on September 1, 1930, through operation of the sinking fund, the total amount of secured debentures as of December 31, 1930, is $48,840,000, the ratio of principal and the ratio of income are now 125.20 per cent respectively 149.90 per cent.

"We shall be pleased to have your confirmation that you are in agreement with our figures, and remain."

Further indicative as to the method by which these transactions were carried on, was a cable from Skandinaviska Kreditaktiebolaget to Lee, Higginson Trust Co. dated March 26, 1931, as follows:

"Upon request Kreutoll we release out of collateral held under Kreutoll debenture agreement March 1, 1929, 956,243 pounds Greece 8½ per cent bonds due 1958 against $2,950,000 Poland 7 per cent bonds due 1945 which exchange, thanks to surplus collateral now held according to our records, still leaves value of collateral above contractual minimum ratio. Kindly confirm by cable."

This message was acknowledged by cable to Skandinaviska Kreditaktiebolaget by Lee, Higginson Trust Co., under date of March 27, 1931, as follows:

"We acknowledge receipt of your cable twenty-sixth relative change in collateral under Kreutoll debenture agreement dated March 1, 1929, of which we have taken due note."

On May 21, 1931, Lee, Higginson Trust Co. forwarded a letter to Skandinaviska Kreditaktiebolaget, outlining a proposed code to facilitate and to save expense in connection with cabling advices as to substituted collateral. In that letter was the following paragraph:

"In case securities which have not previously been held as collateral are deposited under the agreement, we assume that prior to releasing other eligible securities you will see that the new collateral meets the general requirements of the indenture as outlined in Section I of Article III of the debenture agreement dated March 1, 1929. We are writing to Kreuger & Toll requesting them to kindly send us, whenever new collateral is deposited, their certificate to the effect that the new securities are eligible securities and other details, as outlined in Section VI of Article III of the debenture agreement, together with a copy of the opinion of Kreuger & Toll's counsel relative to the respective issues."

On the same day, Lee, Higginson & Co. advised Messrs. Kreuger & Toll by letter substantially to the same effect as indicated in the foregoing paragraph.

CONFIRMATION BY LEGAL COUNSEL

The opinion of competent legal counsel as to the legality and authenticity of the various issues deposited as collateral has been duly supplied by the following:

Issue of Hungarian land reform mortgage bonds, 5½ per cent, 1979, in total principal amount of $36,000,000, authenticated by opinions of Doctor Mezei and Doctor Urbach; opinion dated Budapest, Hungary, May 7, 1929.

Issue of Republic of Latvia, $6,000,000, 6 per cent external cumulative sinking-fund gold loan bonds, authenticated by W. Kuehn, in an opinion dated Riga, June 6, 1930; accompanied by certificate of legality and authenticity executed by Martins Nuksa, minister of the Republic of Latvia in Stockholm.

Issue of $22,000,000, Kingdom of Serbs, Croats, and Slovenes, 6¼ per cent secured external gold-bond monopolies loan, 1958, authenticated by A. Pavlovitch; opinion dated Stockholm, July 22, 1929.

Issue of Kingdom of Rumania consolidation 4 per cent sterling bonds, 4 per cent, due 1968.

Issue of Kingdom of Rumania monopolies institute 7½ per cent bonds, due 1971, authenticated by opinion of M. Pantazi; opinion dated Bucharest, March 19, 1931.

Issues of the Republic of Ecuador 8 per cent external gold-loan bonds, due 1953, and the Mortgage Bank of Ecuador 7 per cent gold bonds, due 1949, were authenticated by Alfonso Moscoso; opinion dated Quito, April 27, 1931.

The issues of Yugoslavia (Kingdom of Serbs, Croats, and Slovenes), Latvia, and the Hungarian land reform mortgage loan were further authenticated by Ivar Engellau (barrister at law, Stockholm) and Erland Geijer (former member of court of appeal in Stockholm); opinion dated April 15, 1931.

CERTIFICATE OF THE COMPANY

Confirming all of these transactions, Kreuger & Toll Co. addressed to Lee, Higginson Trust Co. on April 15, 1931, a certificate, duly authenticated by Mr. Harold Carlson, vice consul of the United States at Stockholm, in which it was set forth:

"The undersigned Aktiebolaget Kreuger & Toll hereby certifies that the securities described herein and which are deposited with Lee, Higginson Trust Co., as trustee, respectively with Skandinaviska Kreditaktiebolaget, Stockholm, as depositary, under the above-mentioned debenture agreement:

"1. Are of the character and description specified in section 1 of Article III of said debenture agreement,

"2. Are legally and validly issued,

"3. Are not in default as to either principal or interest,

"4. Yield an annual income, at the rate of interest currently being paid thereon, after the deduction of all taxes, assessments, and governmental charges payable therefrom in dollars (Kingdom of Rumania consolidation 4 per cent sterling bonds due 1968 computed at a rate of exchange of 4.85), equivalent to not less than 120 per cent of the agregate interest payable annually on all secured debentures now outstanding under said debenture agreement."

Originals of all of the foregoing are lodged in the office of Lee, Higginson Trust Co.

The situation was brought up to date in a letter from Skandinaviska Kreditaktiebolaget to Lee, Higginson Trust Co., dated January 7, 1932, as follows:

"With reference to our previous correspondence, we beg to give you below, for order's sake, a list of the collateral which we held as of December 31, 1931, in our capacity of depositary under the Kreuger & Toll Co. debenture agreement dated March 1, 1929.

I. In our vaults: $22,000,000 Kingdom of Yugoslavia 6¼ per cent bonds, 1958; $6,000,000 Republic of Latvia 6 per cent bonds, 1964; $11,848,753.65 Hungarian land reform mortgage 5½ per cent bonds, series A; $12,000,000 Hungarian land reform mortgage 5½ per cent bonds, series B; $2,925,600 Kingdom of Rumania Monopolies Institute, 7½ per cent, 1971.

II. Abroad in our name: 380,691 pounds, Kingdom of Rumania 4 per cent bonds, 1968 (with Messrs. Higginson & Co., London).

"At the same time we beg to give you a specification of the par value and actual interest income, computed in dollars in conformity with the provision of said debenture agreement, of the collateral held by you and us as of December 31, 1931. As for the securities held by your good selves we have based our figures on the statements and plans of amortization received from the Kreuger & Toll Co.:"

	Interest income
$22,000,000 (par value) Yugoslavia 6¼ per cent	$1, 375, 000
$6,000,000 (par value) Latvia 6 per cent	360, 000
$11,848,753.65 (par value) Hungarian land reform series A. 5½ per cent	651, 681
$12,000,000 (par value) Hungarian land reform, series B 5½ per cent	660, 000
$2,925,000 (par value) Rumania Monopolies Institute 7½ per cent	219, 420
$1,294,350 (par value) Rumania 4 per cent (380,691 pounds at 3.40)	51, 774
$1,896,529.17 (par value) Ecuador 8 per cent	151, 722
$936,576.61 (par value) Ecuador Mortgage Bank 7 per cent	65, 550
Total	3, 535, 157

(The par value of the above collateral is $58,901,809.43.)

Mr. MARRINAN. Was there any requirement, Mr. Durant, as to the value of the pledged security?

Mr. DURANT. Not in the sense of market value, but in the sense of its security. It was not done by saying the collateral shall always be of a certain market value, because it was supposed that the issues that would be there would be whole issues bought in connection with the match business, Government bonds, which would not therefore be listed and not have a market value. But the main provision in it, which I think was a very good one, was instead of market value not only should the collateral's par value be 120 per cent of the principal, but the income on whatever collateral was in there must be at least 120 per cent of the interest due on the Kreuger & Toll bonds, which meant that the collateral itself was furnishing enough money to supply the sinking fund, and so it was reducing that debt right along without any other funds from the company being necessary to retire that debt. It was a self-liquidating debt over a period of time.

Mr. MARRINAN. In the light of what we know now of this situation by reason of the audit, a report of which was published yesterday, prepared by Price, Waterhouse & Co., that income which you have referred to several times probably was coming out of the capital structure rather than out of the earnings, isn't that true?

Mr. DURANT. No, sir. The income I am referring to now is income from pledged collateral, which had nothing to do with anything else. It was lodged with Lee, Higginson Trust Co.

The CHAIRMAN. But the income ceased.

Mr. DURANT. No, sir; not from anything that happened to Kreuger & Toll Co. That interest came from certain countries, Hungary for instance, and there the transfer problem is involved, connected with the world economic situation.

The CHAIRMAN. The market value of your bond issue went down from—what was the par value of the stock, 100?

Mr. DURANT. Yes, sir.

The CHAIRMAN. And it sold at 98?

Mr. DURANT. Yes, sir.

The CHAIRMAN. And it has hit a very low mark of what?

Mr. DURANT. I do not recall, sir.

The CHAIRMAN. Did somebody say 12 cents?

Mr. MARRINAN. Twelve and one-half per cent.

Mr. DURANT. $120, do you mean? I do not know the low price.

The CHAIRMAN. What is the present price?

Mr. DURANT. My recollection is that it is 14, which is about $140 per $1,000 bond.

The CHAIRMAN. You mean $14 whereas it was $100 before?

Mr. DURANT. Yes, sir.

The CHAIRMAN. And you do not remember how low it went?

Mr. DURANT. No, sir.

Senator COSTIGAN. Are you referring to the Hungarian land reform mortgage bonds?

Mr. DURANT. Yes, sir; in that remark.

Mr. MARRINAN. In order that the situation may be clear, and you may correct or confirm my understanding, these bonds were issued in denominations of $1,000.

Mr. DURANT. $1,000 and $500. But the $500 bonds were rarely used. So $1,000 is the way we usually speak of them.

Mr. MARRINAN. Is it true that there was a very liberal construction of eligibility at first in connection with the substitution of collateral?

Mr. DURANT. Well, it was limited primarily to Government obligations, or certain guaranteed Government obligations or municipals. But I do not know whether you would say it was liberal or not. I think, to our minds, it was liberal in that particular class, but the class itself was not one particularly liberal when taken in conjunction with the match business and monopolies.

Mr. MARRINAN. We have heard, and, of course, we get a lot of rumors down here, that the eligibility provisions were so liberal that it would have been possible to substitute legally defaulted issues. That if a bandit chief in the Yangste Valley, who could control and guarantee formally an issue, so long as his domain had a minimum population of 300,000 people, under the terms of this indenture such issue would be eligible. Is there anything in such a report?

Mr. DURANT. I do not see how there could be anything in it, because there is another provision in the indenture which provides that the interest must be paid and the bond m good standing at the time it was put in.

The CHAIRMAN. So if a bandit chief had paid one or two payments of interest, his bond would be eligible for substitution?

Mr. DURANT. That is a theoretical case, Mr. Chairman. I should like to go through other features of the debenture. No such bonds went in.

Senator COSTIGAN. Nothing was said about market value or fair value?

Mr. DURANT. No, sir.

Senator COSTIGAN. About par value?

Mr. DURANT. Yes, sir. It was thought that with these other provisions, the securities would remain, that it was set up with a sinking fund, and that sinking fund was always paying off the Kreuger & Toll debts. So we did not need to have market value as such. It was a self-liquidating operation.

Senator COSTIGAN. Have such substitutions of other securities been customary in the practice of Lee, Higginson & Co.?

Mr. DURANT. As to that I could not answer. Perhaps each one is different. I am not an expert enough to speak in that way.

Senator COSTIGAN. Have you ever known one similar to this?

Mr. DURANT. We have never had a situation where we were dealing with a number of foreign governments before.

Senator COSTIGAN. You have not known of a similar substitution?

Mr. DURANT. No; I have not known of it. I have not looked up that point, of course, and there might be some somewhere, but if so I do not know of it.

Senator FLETCHER. Were those collateral securities all Government issues?

Mr. DURANT. I think so. There is a list of the collateral here.

Mr. MARRINAN. There will be a list of the collateral submitted to the committee for inclusion in the record, a little later.

The CHAIRMAN. All right. Proceed with the examination.

Mr. MARRINAN. What was the most valuable asset in your opinion in the originally pledged collateral?

Mr. DURANT. Well, I never thought of it in terms of any particular issue, as to any particular collateral. To me the system under which this bond issue was set up was a very valuable one, a group of good Government bonds, and——

Mr. MARRINAN (interposing). I know, but there are relative values, and you are familar with that what was pledged. What particular item in the pledged securities would you say had the greatest intrinsic or market value? I mean practical value and do not mean par value.

Mr. DURANT. I suppose the one that has the most readily saleable market value was the French.

Mr. MARRINAN. The French bonds?

Mr. DURANT. Yes.

Mr. MARRINAN. Is it true that those French bonds were paying 3 and 4 per cent?

Mr. DURANT. That is my recollection, that that was the coupon on them.

Mr. MARRINAN. Would you say that that bond issue could be supported if it had all been on French bonds at that rate?

Mr. DURANT. Certainly, because—do you mean because the interest was only 3 or 4 per cent?

Mr. MARRINAN. Just answer the question. I mean as to all classes and also as to income requirements.

Mr. DURANT. Well, to meet the income requirements of the indenture, which provided for income of collateral at 120 per cent, the par value of those bonds would have had to be increased. The ruling clause in that case would have been the interest clause. Is that answer clear?

Mr. MARRINAN. Yes; I think so.

Mr. DURANT. So that you would have had to have more par valuation than if those bonds had been at the rate of 6 or 7 or 8 per cent.

Mr. MARRINAN. Then you mean you would have had to change the par value provision of the agreement?

Mr. DURANT. No, sir; not the provision of the agreement, but instead of—for instance, here was a $50,000,000 issue with an interest provision of 120 per cent. That would mean that a 6 per cent bond paying its interest was adequate collateral at par. But if it was a 3 per cent bond you would have to put in twice as many bonds, without changing the provisions, just deposit more par value. That is the way I understood it.

Senator FLETCHER. The French did not make default, did they?

Mr. DURANT. No, sir.

Senator FLETCHER. Were their bonds subsequently withdrawn?

Mr. DURANT. Yes, sir.

Mr. MARRINAN. Was it not apparent, Mr. Durant, from the profit standpoint that an early substitution of the French bonds was inevitable?

Mr. DURANT. I do not think so.

Mr. MARRINAN. Well, you either had to get more French bonds or you would have had to replace them with issues that had a greater return, isn't that true?

Mr. DURANT. I do not think so, because when they were originally in I think all the provisions of the indenture were fulfilled, interest

as well as principal. That is my recollection. And could have stayed there I think from that point of view.

Mr. MARRINAN. There has been an impression that those French bonds were put in there for purposes of window dressing the issue. Is there anything in that impression?

Mr. DURANT. I do not think so.

Senator WATSON. How many French bonds were there, Mr. Durant?

Mr. DURANT. About $13,000,000 market value.

The CHAIRMAN. They were all withdrawn before they were paid, were they?

Mr. DURANT. Oh, yes. I think they are long-time bonds, if I remember correctly.

Senator GORE. What was substituted for them when they were withdrawn?

Mr. DURANT. My recollection is some more of the Hungarian bonds. I would like to check that. No new names of new borrowers have been added to that picture since the start, with the exception of a small amount of German bonds. I think I am correct about that.

The CHAIRMAN. Was the Hungarian issue that large?

Mr. DURANT. Yes, sir.

The CHAIRMAN. Is it not a matter of fact that several kinds of bonds were substituted for that issue, and some of them are worthless to-day?

Mr. DURANT. Senator Norbeck, I said that I was subject to correction on just what was substituted, because I have not got it exactly in mind. My memory was that much of those bonds I do not think are worthless to-day.

Mr. MARRINAN. We shall have offered to the committee for insertion in the record a complete story of each and every substitution by date, both withdrawal and deposit.

Mr. DURANT. I will be glad to.

Mr. MARRINAN. Which was prepared in your office and submitted formally to the committee.

Mr. DURANT. Yes, sir. I thought you had that.

Senator COSTIGAN. Mr. Durant, what were the least marketable of the securities originally deposited as collateral, if you recall?

Mr. DURANT. I could not recall. We never made any study of the marketability of those.

Senator COSTIGAN. It has been stated that the Latvian and Ecuadorian bonds might be so described.

Mr. DURANT. Well, perhaps, but strange to say, the Latvian are still paying their interest, so far as I know. Have not been defaulted. One of the ones that have been still outstanding through all these years.

Senator COSTIGAN. Are they still among the collateral?

Mr. DURANT. They are still among the collateral. Still paying interest, the last time.

The CHAIRMAN. Have they got a market value? Are they listed?

Mr. DURANT. They are not listed. It is the whole issue, sir. I think that is the only external debt of Latvia. I am not sure.

Mr. MARRINAN. Mr. Durant, am I correct in the understanding that the Lee, Higginson Trust Co. of Boston was the trustee of this issue?

Mr. DURANT. That is my recollection.

Mr. MARRINAN. And that the Scandinavian Credit Share Co.—if that is a correct translation—of Stockholm, was the depository?

Mr. DURANT. The depository, I believe, under the trustee.

Mr. MARRINAN. Is it fair to state that the arrangements provided in the debenture agreement have been at least partially responsible for the condition existing to-day wherein the liabilities of this issue are in America and its assets held in Sweden—or perhaps we can apply that statement more largely or generally to the Kreuger & Toll picture?

Mr. DURANT. I do not understand the question, Mr. Marrinan. Could you split it up a little?

Mr. MARRINAN. Perhaps I did not make myself clear. Who, in fact, had control of the pledged collateral?

Mr. DURANT. The trustee. You mean physical control?

Mr. MARRINAN. Physical control.

Mr. DURANT. Physical control was lodged with the trustee, who appointed its depositary, I believe. I think that is perhaps legal. But the trustee and the depositary had physical control of the collateral while it was in behind the bonds. And it is all there.

Mr. MARRINAN. Most of that collateral was kept all the time in Stockholm, is that not true?

Mr. DURANT. I do not know what proportion is there or in Boston.

Mr. MARRINAN. I think the record which we will insert will show that.

Mr. DURANT. The records will show it; yes.

Mr. MARRINAN. Well, in the present situation where are most of those bonds now, the pledged bonds? Are they in the United States or are they in Sweden?

Mr. DURANT. I do not think they have been moved over here, but they have all been found to be just where they were supposed to be, for the benefit of the bondholders.

Mr. MARRINAN. Well, I think that you will find to a very considerable extent in Sweden.

Mr. DURANT. Possibly so.

Mr. MARRINAN. Being in Sweden and counted into this general picture now in liquidation, is it fair to say that they comprise a part of the assets in Sweden? That is what I am driving at. We have got plenty of liabilities over here, and there appears to be a very considerable percentage of the assets in Sweden. I do not want a precise legalistic answer on that point. I just want a man to man answer.

Mr. DURANT. Well, I do not know what the legalistic phase of it is, but I think most of those securities are with the depositary, which is in Stockholm, subject to these bonds. I think they can be brought over any time you want.

Senator FLETCHER. Why should they not be with the trustee?

Mr. DURANT. Sir, they are with the depositary, and they are being held by the Swedish bank for the account of the trustee and not to be confused with other Kreuger & Toll assets in Sweden, because they are earmarked for this trustee.

Senator WALCOTT. That is, the collateral that is supposed to be behind these bonds and supposed to be in the possession of the trustee in America behind the American bonds is lodged in a, let us

say, safe deposit vault, hired by the trustee in Boston, in Sweden; is that correct?

Mr. DURANT. Well, that is essentially correct.

Senator WALCOTT. Yes.

Mr. DURANT. Now, whether it is just a safe deposit vault hired by the trustee or the Scandinavian bank, that is a fact I do not know.

Senator WALCOTT. But segregated?

Mr. DURANT. Segregated.

Senator WALCOTT. And so marked as collateral to the American issue?

Mr. DURANT. Yes.

Senator WALCOTT. Now, then, have your auditors, whoever is looking into this whole question, or the auditors for the bondholders, checked that to find out whether that is actually a fact?

Mr. DURANT. Yes. Not only did auditors check it on behalf of the Lee, Higginson Trust Co. immediately after the death of Mr. Kreuger, but I understand that the bondholders' committee has made an independent check and found it, and so stated, that everything was in order.

Senator COSTIGAN. Mr. Durant, have any legal steps been taken to attach the collateral for the benefit of foreign creditors?

Mr. DURANT. I do not think so.

Senator COSTIGAN. May I ask who suggested the substitution provision in the indenture? Was it Kreuger or was it some member of the law firm?

Mr. DURANT. Why, I would say that it was Kreuger, who felt that that was necessary in this business. Sometimes these bonds had to be taken out, as he once bought a French issue and had to sell it back to France in two years at a big profit.

Senator COSTIGAN. Do you recall any question being raised as to the propriety of inserting so liberal a substitution agreement?

Mr. DURANT. No, sir. The company at that time had additional assets of $150,000,000 above the bonds, and was showing very big earnings. And that did not come up.

Senator COSTIGAN. So far as you remember no question was raised either by legal counsel or by Lee, Higginson & Co.?

Mr. DURANT. Well, we felt that it was a sufficient protection. Government bonds with this interest rate, that would liquidate the debt, plus the guarantee of Kreuger & Toll that was in addition.

Senator COSTIGAN. No discussion of the novelty of the situation occurred within your recollection?

Mr. DURANT. My recollection would be that the novelty was perhaps discussed with a feeling that it was a rather good change over some other issues, where market value had to be made good. But a self-liquidating loan which was not dependent on the earnings of the company itself necessarily was a change to the good.

Senator COSTIGAN. Notwithstanding the fact that the substitution clause in effect permitted the withdrawal of $60,000,000 of market value of securities and the possible substitution therefor of a relatively minor quantity of securities in value?

Mr. DURANT. Well, it was not set up on the point of value at all. It was type of security. And only the same type could be put in that was taken out, so far as type goes.

Senator COSTIGAN. In effect, however, the clause did permit the substitution of securities of inferior value. That was the result of the operation of the clause, was it not?

Mr. DURANT. Well, the result of that clause was that some securities were substituted for the French, but they have not defaulted. There is a transfer problem on it.

Senator COSTIGAN. Do you or do you not regard the substituted securities as of inferior value to those for which they were substituted?

Mr. DURANT. Yes, sir; I regard them as inferior in market value to the French, yes, sir; of course.

Senator COSTIGAN. To what extent? How do you estimate the difference in value?

Mr. DURANT. Well, one has got a transfer problem at the moment and the investor is not getting his interest. I would not be able to put it in dollars, Senator.

Senator COSTIGAN. You could make no estimate of the difference in value of the substituted securities?

Mr. DURANT. No; because these substituted securities were not listed. There is no comparable security on the market.

Senator FLETCHER. Was it entirely optional with Kreuger & Toll to make the substitution, or did the trustee have anything to say about this?

Mr. DURANT. The trustee had this to say, that Kreuger & Toll could make the substitution as long as they were within the terms of the debenture agreement, and it was up to the trustee to live up to the agreement, which we feel has been lived up to.

Senator FLETCHER. And that was that the substituted security should have a par value equal to those withdrawn?

Mr. DURANT. Par value and income. There are several provisions in the debenture agreement, Senator Fletcher, that all have to be met.

Senator WATSON. When was that substitution made, Mr. Durant?

Mr. DURANT. Senator, I do not recall. We have given Mr. Marrinan a complete list of all the substitutions with dates.

Senator WATSON. Were Hungarian bonds regarded as good at that time?

Mr. DURANT. They were regarded as good at that time, and they were already in the original list. It was an additional amount of Hungarians. No new names of borrowers were ever substituted, as I can remember, except a small amount of Germans.

Senator WATSON. Well, were all Hungarian bonds substituted for the French bonds?

Mr. DURANT. I do not know. The list will establish it.

Senator COSTIGAN. It is reported that the Hungarian bonds which were substituted were either in default or affected by the moratorium.

Mr. DURANT. At the time of the substitution?

Senator COSTIGAN. At the time of the substitution.

Mr. DURANT. That is not correct, sir.

Mr. MARRINAN. Mr. Durant, was substitution of pledged collateral reported to the trustee, Lee, Higginson & Co.? Promptly, I mean? With reasonable promptness?

Mr. DURANT. To Lee, Higginson Trust Co.?

Mr. MARRINAN. I should have said that if I did not. The trustee, the Lee Higginson Trust Co., of Boston. Were all subscriptions of collateral promptly reported to them?

Mr. DURANT. Do you mean by the Swedish depositary?

Mr. MARRINAN. Yes.

Mr. DURANT. Well, I would assume so, but I do not know of my own knowledge. I have no relation with the Lee, Higginson Trust Co.

The CHAIRMAN. How long after the bond issue was offered to the public did the substitution start?

Mr. DURANT. Senator Norbeck, I would have to refresh my recollection from the statement we have already handed in to the committee.

The CHAIRMAN. Is it a fact that there is any truth to these rumors that some of them actually took place before they were offered to the public? While the set-up was being prepared?

Mr. DURANT. None of them took place while they were being offered to the public, because the debenture agreement, as I recall it, was not even written then. They were sold when, as, and if issued.

The CHAIRMAN. In other words, the public did not know what they were buying then?

Mr. DURANT. The public knew what they were buying then, but I mean there could be no substitution. The original amount was there.

The CHAIRMAN. So this substitution then was something that was written in after the public had bought the bonds?

Mr. DURANT. No, sir. I thought you were talking about physical substitution.

The CHAIRMAN. Yes. I am asking when it took place. You said that the indenture was not written at the time the bonds were offered to the public, is that right? Did I understand you correctly?

Mr. DURANT. Well, I would have to refresh my recollection. I think the bonds were offered and agreement to make a debenture agreement on certain lines. It is all in the record sir. I could look it right up.

The CHAIRMAN. Go ahead.

Mr. MARRINAN. Was the public given any information about these substitutions by the trustee, or in any other manner?

Mr. DURANT. I don't know what the trustee did. I know it was always available.

Mr. MARRINAN. Did Lee, Higginson & Co. have knowledge of the substitution?

Mr. DURANT. It was always available.

Mr. MARRINAN. Well, did you have it, sir?

Mr. DURANT. I don't know whether the trustee sent it to us or not.

Mr. MARRINAN. Don't you think that as sponsoring bankers that it was your duty to keep measurably abreast of the events?

Mr. DURANT. Mr. Marrinan, I do not know. I would like to look at it—I mean I can not answer the question at the moment whether they did.

Mr. MARRINAN. Well, everybody in New York has been talking about this particular proposition. It seems to me that you should be reasonably well informed on that point.

Mr. DURANT. As to whether the trustee notified us?

The CHAIRMAN. Can you answer it to-morrow or the day following?

Mr. DURANT. I can find out now, I think.

The CHAIRMAN. Well, you will have an opportunity.

Mr. DURANT. I will be prepared.

The CHAIRMAN. We will give you an opportunity to come back and answer that.

Mr. MARRINAN. As a director in Kreuger & Toll, Mr. Durant, and also a director in Lee, Higginson & Co., can you state whether or not this information of substitutions was made available to the New York Stock Exchange?

Mr. DURANT. I do not know.

Mr. MARRINAN. Your firm is a member of the New York Stock Exchange?

Mr. DURANT. Yes.

Mr. MARRINAN. I am advised that the first information regarding the details of substituted collateral reached the New York Stock Exchange on its own initiative by cable from Kreuger & Toll under date of March 21, 1932, some nine days after Kreuger's suicide. Can you confirm by your own knowledge—I have other witnesses to whom the same inquiry may be directed—can you confirm by your own knowledge as to whether that understanding is correct?

Mr. DURANT. I know that there was a question of some information going to the stock exchange at that time, but I do not know of my own knowledge whether that is the first advice they had of any substitutions. It was the obligation of the company to furnish them changes.

Mr. MARRINAN. Do you think, Mr. Durant, that in this substitution phase of the matter that adequate safeguards were set up in behalf of the public?

Mr. DURANT. In the indenture?

Mr. MARRINAN. In this whole situation—the indenture and the operations under the terms of the indenture.

Mr. DURANT. Oh, I think so. Those bonds would be perfectly good to-day if it were not for the international transfer problem.

Mr. MARRINAN. The Hungarian bonds would be good, you say, if it were not for a transfer problem?

Mr. DURANT. I so understand it, because I am advised that the income on those bonds, the interest, is being paid to a blocked account in Hungary—that is the advice that has been given to me—for the benefit of the holders of the bonds when transfer is allowed by the Government.

Mr. MARRINAN. Well, to get back to that question, Mr. Durant, do you think that where the public was kept generally in ignorance and the New York Stock Exchange was kept generally in ignorance of the exact status of this substituted collateral, that in that situation the American investor had an adequate safeguard?

Mr. DURANT. I think I can answer your question by saying that the company certainly should have made good on its obligation to post the stock exchange promptly—Kreuger & Toll Co.

Mr. MARRINAN. We are going into that a little later. You do not think that the trustee had any obligation?

Mr. DURANT. No, sir.

Mr. MARRINAN. You do not think that you, as sponsoring bankers and members of the New York Stock Exchange, had any obligation?

Mr. DURANT. No, because we thought the company was going to do it. The company had agreed in the listing application to furnish that information.

Mr. MARRINAN. You assumed no responsibility then for that at all?

Mr. DURANT. For posting the exchange; no, sir.

Senator FLETCHER. You, as a director of the company, might have seen to that, might you not?

Mr. DURANT. Well, Senator Fletcher, I did not realize that the company had failed to give that information to the stock exchange over those years, and when I heard there was some information that they had not given when I was in Sweden I told them to tell them at once what it was.

Mr. MARRINAN. Mr. Durant, I have before me here a statement prepared in the office of Lee, Higginson & Co., under date of May 26, 1932, in which there is a very complete report on the details of the originally pledged collateral and all changes, including deposits and withdrawals. I can find at no place in this record a complete agreement between the total of pledged collateral at par value in dollars and the corresponding total as it appears in the application of Kreuger & Toll Co. for listing on the New York Stock Exchange, which was signed by you as a director of Kreuger & Toll Co. The disparity in the figures I call attention to, not because the difference appears to be material, but to emphasize the apparent laxity with which this transaction started in its relations with the New York Stock Exchange.

I am informed that the exchange, for example, had no knowledge of any substitutions until after Kreuger's death. Substitutions, according to your records submitted to me, were more than $280,000 at par in dollars prior to the time that the application for listing was approved, and during the period between the filing of the application on August 6, 1929, and its approval on August 14, 1929, there was a deposit of Serbian bonds amounting to $500,000, and withdrawals of other various issues in small amounts, in the aggregate $256,599. I am informed that some of these transactions, if not all of them, may be explained by withdrawals for sinking fund purposes—not as against the Kreuger & Toll issue itself, but the individually pledged collateral issues. It is a rather confusing situation. The amounts involved do not appear so material, but there appears to be no definite check and no comparability between your figures and the figures of the New York Stock Exchange, and there is a general atmosphere of laxity. Have you examined that situation and can you give us any information as to how I can, or how—perhaps we will put it impersonally—how those figures may be reconciled?

Mr. DURANT. Mr. Marrinan, it seems to me that if the stock exchange was never notified by Kreuger & Toll Co. of any changes, the figures by the trustee would always disagree.

Mr. MARRINAN. Well, I am talking about a table representing the alleged pledged collateral, when you applied for listing. I have the complete record, with every deposit and withdrawal, from the time that you report the original withdrawal on July 1, 1929, some months before, by the way, you applied for listing, on through August 10, when you withdrew an aggregate of something like $250,000 and deposited some Serbian bonds of $500,000 value, all par value, and on down some 36 changes. Nowhere in that statement can I find identity or incidence between the total of pledged collateral on deposit as reported by you in this statement, and the total of pledged collateral on deposit as reported by you to the New York Stock Exchange as signatory of the application to list. Now the differences, as I stated, are not material, but you have accountants. There appears to be a laxity in there. Have you ever tried to reconcile

the statement of pledged collateral in your application at the exchange with your own books?

Mr. DURANT. Mr. Marrinan, those would not be our own books. Those would be the books of the Lee, Higginson Trust Co., which was a separate trust company in Boston, the trustee.

Mr. MARRINAN. Yes; but did you not always have access to them or knowledge of that situation?

Mr. DURANT. No, sir; not any more than any others. They were in there separate. They were the trustee.

Senator FLETCHER. May I ask, how did you make up your list on behalf of the substitutions?

Mr. DURANT. It was done by the company, I believe. I did not have anything to do with it.

Senator FLETCHER. The company?

Mr. DURANT. That was done by the trustee.

Senator FLETCHER. That was done by the trustee, and you did not handle that?

Mr. DURANT. No; I had no interest in the trustee. I was no officer of the trustee.

Senator FLETCHER. No; but it is a member of the Stock Exchange, and a director of Kreuger & Toll, and is underwriting agents for the sale of securities. Did you know about these lists being put in from time to time?

Mr. DURANT. No, sir.

Mr. MARRINAN. Mr. Chairman, with your permission, and that of the committee, I would like to introduce as an exhibit at this time a communication signed by Jerome D. Greene, at that time a partner of Lee, Higginson & Co., addressed to Frank J. Meehan, of George K. Watson & Co., at that time employed by this committee, in which answers are given to a series of questions presumably propounded to Lee, Higginson & Co. on this matter under the direction of William A. Gray, at that time counsel to the committee. I request that this be made a part of the record.

And in that connection will you clear this point, in order that there may be no weakness in the authenticity of this document. Was Mr. Greene at that time in fact a partner of Lee, Higginson & Co.?

Mr. DURANT. He was.

Mr. MARRINAN. Is he now?

Mr. DURANT. He is.

Mr. MARRINAN. He is not in the United States?

Mr. DURANT. That is correct.

The CHAIRMAN. If there is no objection it will be received as an exhibit, and also printed in the record. The Reporter will mark it.

(The data supplied by Mr. Jerome D. Greene, of Lee, Higginson & Co., above referred to, was marked "Exhibit A," and is here printed in the record in full, as follows:)

EXHIBIT A

LEE, HIGGINSON & Co.,
New York, May 31, 1932.

Mr. FRANK J. MEEHAN,
Care of George K. Watson & Co., New York City.

DEAR MR. MEEHAN: I send you herewith our answers to your several questions of May 26 with regard to data supplementing the various documents which you examined the other day.

Very truly yours,

JEROME D. GREENE.

1. Time and date of Mr. Kreuger's death becoming known in Paris.
2. List of substitutions made, with dates of deposit of new securities, in relation to release of originally deposited securities, giving dollar equivalents of foreign currency securities.
3. Brief summary of items in balance sheets now known to have been falsified.
4. Brief details concerning falsification of reported earnings.
5. Record of Lee, Higginson & Co., or any of its partners' security holdings in Kreuger & Toll Co. and its affiliates on a date prior to Kreuger's death, on the day following his death, and on May 25, 1932.
6. Record of any sales of such securities from day prior to Kreuger's death up to present, giving dates, number or value of securities sold, and prices realized.
7. Description of bonds and shares not identified which appear in Kreuger & Toll Co. and its affiliates' statements as of 1928, 1929, and 1930.
8. Description of syndicate participations and accounts receivable items which appear in the above statements.

MAY 26, 1932.

QUESTION 1

The facts as to our information in regard to Mr. Kreuger's death are as follows:

On Saturday morning, March 12, 1932, we received a brief cablegram stating that Mr. Kreuger had died very suddenly, that the news was not public, and that nothing should be said until it was announced in Paris. The cablegram was addressed to the partners of our firm and was not opened by a partner until after 10 o'clock. We felt that the information was confidential and therefore did not communicate it even to our own organization. We, naturally, did not use it for our own advantage and did not sell any of our own holdings of Kreuger securities. We received confirmation later on Saturday of the fact that the French authorities had determined that no announcement should be made that day.

The cable which we received did not indicate that Mr. Kreuger had committed suicide. The first information we had of that fact were the items in the New York newspapers on Saturday afternoon. It was not until late on Saturday evening that we had definite information from Paris that Mr. Kreuger had committed suicide.

QUESTION 2

Kreuger & Toll 5 per cent secured debentures—Details of withdrawals and substitutions of securities deposited

Original	Deposited	Withdrawn	Balance on deposit
Kingdom of Serbs, Croats and Slovenes 6¼ per cent, 1958	$7,000,000		
Republic of Latvia 6 per cent, 1964	6,000,000		
Republic of Poland 7 per cent, 1945	5,100,000		
Mortgage Bank of Ecuador 7 per cent, 1949	1,000,000		
Kingdom of Rumania Monopolies Institute 7 per cent, 1959	2,000,000		
Hungarian land reform mortgage, series A 5½ per cent, 1979	12,000,000		
Republic of France Perpetual Rente 3 per cent (Fcs. 60,000,000)	2,340,000		
Republic of France Perpetual Rente 4 per cent, 1917 (Fcs. 144,000,000)	5,616,000		
Republic of France Perpetual Rente 4 per cent, 1918 (Fcs. 140,000,000)	5,460,000		
Belgian National Rys. preferred stock (B. Fcs. 80,000,000)	2,224,640		
Prussian Mortgage Bank 8 per cent, 1959 (Rm. 12,000,000)	2,856,000		
Kingdom of Rumania 4 per cent, 1968 (£380,691)	1,850,158		
Republic of Greece 8½ per cent, 1954 (£979,902.84)	4,762,326		
Republic of Ecuador 8 per cent, 1953	1,973,275		$60,182,399
July 1, 1929: Republic of Ecuador 8 per cent, 1953		$14,169	60,168,230
Aug. 1: Mortgage Bank of Ecuador 7 per cent, 1949		11,827	60,156,403
Aug. 10:			
Kingdom of Serbs, Croats, and Slovenes 6¼ per cent, 1958	500,000		
Republic of Poland 7 per cent, 1945		150,000	
Kingdom of Rumanian Monopolies Institute 7 per cent, 1959		28,000	
Hungarian Land Reform Mortgage, series A, 5½ per cent, 1979		23,450	
Republic of Greece, 8½ per cent, 1954 (£11,347/8/6)		55,149	60,399,804
Sept. 19: Republic of Poland 7 per cent, 1945		150,000	60,249,804
Nov. 7: Mortgage Bank of Ecuador 7 per cent, 1949		12,241	60,237,563
Jan. 2, 1930: Republic of Ecuador 8 per cent, 1953		14,736	60,222,827
Jan. 15: Hungarian Land Reform Mortgage, series A, 5½ per cent, 1979		24,095	60,198,732

Kreuger & Toll 5 per cent secured debentures—Details of withdrawals and substitutions of securities deposited—Continued

Original	Deposited	Withdrawn	Balance on deposit
Jan. 23:			
Kingdom of Serbs, Croats, and Slovenes 6¼ per cent, 1958	$1,000,000		
Hungarian Land Reform Mortgage, series B, 5½ per cent, 1979	12,000,000		
Republic of France Perpetual Rente 3 per cent (Fcs. 60,000,000)		$2,340,000	
Republic of France Perpetual Rente 4 per cent, 1917 (Fcs. 144,000,000)		5,616,000	
Republic of France Perpetual Rente 4 per cent, 1918 (Fcs. 140,000,000)		5,460,000	$59,782,732
Feb. 1: Kingdom of Rumanian Monopolies Institute 7 per cent, 1959		22,000	59,760,732
Mar. 27: Republic of Poland 7 per cent, 1945		150,000	59,610,732
July 1: Republic of Ecuador 8 per cent, 1953		15,326	59,595,406
July 15: Hungarian land reform mortgage series A 5½ per cent, 1979		49,614	59,545,792
Aug. 1:			
Mortage Bank of Ecuador 7 per cent, 1949		12,670	
Kingdom of Rumania Monlpolies Institute 7 per cent, 1959		14,300	
Republic of Greece 8½ per cent, 1954 (£12, 311/19/1)		59,836	59,458,986
Sept. 15:			
Kingdom of Serbs, Croats and Slovenes 6¼ per cent, 1958	5,000,000		
Belgian National Railways Co. participating preferred stock, 6 per cent (B. Fcs. 80,000,000)		2,224,640	
Prussian Mortage Bank 8 per cent, 1959 (Rm. 12,000,000)		2,856,000	59,378,346
Sept. 29: Republic of Poland 7 per cent, 1945		150,000	59,258,346
Oct. 16:			
Kingdom of Serbs, Croats, and Slovenes 6¼ per cent, 1958	5,000,000		
Republic of Greece 8½ per cent, 1954 (£956,243/-/9)		4,647,341	59,611,005
Dec. 30:			
Kingdom of Serbs, Croats, and Slovenes 6¼ per cent, 1958	3,500,000		
Kingdom of Rumania Monopolies Institute 7 per cent, 1959		1,935,700	61,175,305
Jan. 2, 1931: Republic of Ecuador 8 per cent, 1953		15,939	61,150,366
Jan. 16: Hungarian land reform mortgage series A 5½ per cent, 1979		50,978	61,108,388
Feb. 2: Mortgage Bank of Ecuador 7 per cent, 1949		13,113	61,095,275
Mar. 20:			
Republic of Greece 8½ per cent, 1958 (£956,243/—/9)	4,647,341		
Republic of Poland 7 per cent, 1945		4,350,000	61,392,616
Mar. 26:			
Republic of Poland 7 per cent, 1945	2,950,000		
Republic of Greece 8½ per cent, 1958 (£956,243/—/9)		4,647,341	59,695,275
Mar. 27: Republic of Poland 7 per cent, 1945		150,000	59,545,275
May 20:			
Republic of Greece 8½ per cent, 1954 (£942,884/11/4)	4,582,419		
Republic of Poland 7 per cent, 1945		2,950,000	61,177,634
July 1: Republic of Ecuador 8 per cent, 1953		16,576	61,161,118
July 15: Hungarian land reform mortgage series A 5½ per cent, 1979		3,109	61,158,009
Aug. 1: Mortgage Bank of Ecuador 7 per cent, 1949		13,572	61,144,437
Aug. 24:			
Kingdom of Rumania Monopolies Institute 7½ per cent, 1971 (Fcs. 75,000,000)	3,000,000		
Republic of Greece 8½ per cent, 1954 (£942,884/11/4)		4,582,419	59,562,018
Oct. 21: Kingdom of Rumania Monopolies Institute 7½ per cent, 1971 (Fcs. 100,000)		4,000	59,558,018
Jan. 2, 1932: Republic of Ecuador 8 per cent, 1953		17,239	59,540,779
Feb. 2:			
Cash	14,047		
Mortgage Bank of Ecuador 7 per cent, 1949		14,047	59,540,779
March 12:			
German international loan 5½ per cent (Kr. 55,000)	14,740		
Cash		14,047	59,541,472
April 1:			
Cash (Fcs. 150,000)	6,000		
Kingdom of Rumanian Monopolies Institute 7½ per cent, 1971 (Fcs. 150,000)		6,000	59,541,472
Changes in amount secured debentures outstanding:			
Original issue		50,000,000	
Sinking-fund retirements—			
Sept. 1, 1929	375,000		
Mar. 1, 1930	391,000		
Sept. 1, 1930	394,000		
Mar. 1, 1931	404,000		
Sept. 1, 1931	414,500		
Mar. 1, 1932	425,000		
		2,403,500	
Now outstanding		47,596,500	

Conversion of foreign currencies to dollars, used above, have been made at rate of £=$4.86; French franc=$0.04; Belgian franc=$0.138; reichmark=$0.238; krona=$0.268.

QUESTIONS 3 AND 4

CABLED SUMMARY OF STATEMENT ISSUED BY SWEDISH INVESTIGATING COMMITTEE, APRIL 5, 1932

The investigation committee called in by the board of A. B. Kreuger & Toll, after having conferred with the board, makes the following statement:

As it is evident that it will take considerable time yet to obtain a clear statement of the position of Kreuger & Toll, the investigation committee has requested Messrs. Price, Waterhouse & Co. to make a preliminary report on its examination of the last published accounts of the company as of December 31, 1930. The accountants have made such a report, the contents of which are summarized as follows:

"Although our investigations are still but in the preliminary stage we have nevertheless reached a point where we are able to state that, in our opinion beyond doubt, that the balance sheet of Aktiebolaget Kreuger & Toll as at December 31, 1930, as well as the consolidated balance sheet accompanying it (in which were embodied also the account of its wholly owned subsidiary company, N. V. Financieele Maatschappij Kreutoll) appearing in the directors' report to the shareholders dated April 1, 1931, while being an agreement with the balance appearing on the books of these companies, nevertheless grossly misrepresented their true financial position.

"Under the personal direction of the late Mr. Kreuger, entries were made on the books which, on the one hand, eliminated substantial balances shown to be owing to the parent company by him and by subsidiaries or affiliated companies and, on the other, either entirely eliminated liabilities to other subsidiary companies or established book assets account purporting to represent assets of substantial sums. In some instances there is reason to believe the book assets so set up were either—

"1. Greatly in excess of the items they purported to represent,

"2. Entirely fictitious, or

"3. Duplication of assets belonging to and appearing on the books of associated companies.

"Moreover, even though some substance should lie behind these book asset accounts (which at present there is reason to doubt), there are instances where their descriptions and classifications in the balance sheets were entirely misleading.

"It is of course impossible to state now just what the real position actually was, but such evidence as is available is indicative that it was grossly overstated and this is our present opinion.

"From a cursory examination we have made of the books and accounts of the Continental Investment Co. (a wholly owned subsidiary of the International Match Corporation) and from a comparison of the details of the current accounts between this company and the two Kreutoll companies above referred to, we have ascertained that a similar situation exists in regard to the accounts of this company also.

"The manipulations of the accounts above indicated appear to have extended also to the profit and loss account of the two companies concerned. Indeed, there are also indications that the profits reported for the year 1930 were grossly overstated by means of fictitious entries."

The investigation committee and the board of the company are trying to find some way, in the first place to liquidate the company in such a manner that the interests of the creditors will be looked after to the greatest possible extent, and also to continue in some form the business of the industrial undertakings belonging to the Kreuger concern.

TORSTEN NOTHIN.
E. BROWALD.
MARTIN FEHR.
B. G. PRYTZ.
HUGO STENBECK.
J. WALLENBERG.

QUESTIONS 5, 6

Record of security holdings in Kreuger & Toll Co. and affiliated companies at August 31, 1931, March 14, 1932, and May 25, 1932, of Lee, Higginson & Co.

	Aug. 31, 1931	Mar. 14, 1932	May 25, 1932	Increase or decrease, Mar. 14, 1932, over Aug. 31, 1931
Kreuger & Toll Co.:				
Firm.....American certificates	119,440	139,307	139,307	19,867
Partners.....do	149,572	160,973	160,973	11,401
Total.....do	269,012	300,280	300,280	[1] [3] 31,268
Participating debentures—				
Firm.....kronor	633,340	0	0	[3] 633,340
Partners.....do	70,220	0	0	[3] 70,220
Total.....do	703,560	0	0	[1] [3] 703,560
B shares—				
Firm.....shares	5,900	5,220	5,220	[3] 680
Partners.....do	1,770	0	0	[3] 1,770
Total.....do	7,670	5,220	5,220	[2] [3] 2,450
International Match Corporation:				
Participating preference stock—				
Firm.....shares	0	0	0	0
Partners.....do	5,200	4,600	4,600	[3] 600
Total.....do	5,200	4,600	4,600	[3] 600
Swedish Match Co.:				
B stock—				
Firm.....shares	0	0	0	0
Partners.....do	2,000	2,000	2,000	0
Total.....do	2,000	2,000	2,000	.....

[1] 20 kronor equals 1 American certificate. These kronor debentures were exchanged for 35,178 American certificates on Oct. 24, 1931.
[2] With the proceeds of the sale of these 1,770 B shares there were purchased 7,890 American certificates in February, 1932.
[3] Decrease.

NOTE.—None of these securities were sold between the day prior to Mr. Kreuger's death and the present time.

QUESTION 7

1928

The consolidated balance sheet of AB Kreuger & Toll and its principal subsidiary holding companies, N. V. F. M. Kreuger & Toll and Swedish American Investment Corporation, as of December 31, 1928, shows "Other industrial stocks" of $10,280,704, "Real estate interests in other European countries" of $13,591,943, "Bank stocks" of $15,231,962, "Foreign Government bonds" of $21,071,744 and "Other stocks and bonds" of $4,784,103. According to information furnished to us, the composition of these items is as follows:

Other industrial stocks:	
38,000 shares Stora Kopparbergs Bergslags AB	$1,680,360
8,000 shares AB Svenska Kullagerfabriken	482,400
5,266 shares Fiskeby Fabriks AB	148,185
523 shares Grangesberg Co	42,049
8,713 shares Kopparbergs & Hofors Sagverks AB	262,697
3,228 shares AB Separator, series A	155,719
1,872 shares AB Separator, series B	90,305
2,145 shares Mexikanska Telefon AB Ericsson	137,966
5,710 shares Finska AB Kreuger & Toll	688,626
1,750 shares Svenska Flaktfabriken	281,400
11,390 shares Finanzgesellschaft fur die Industrie, series A	2,197,814
58,000 shares Finanzgesellschaft fur die Industrie, series B	4,113,182
Total	10,280,704

Real estate interests in other European countries:	
AG Fuer Hausbesitz (Berlin)	$12, 928, 643
French Real Estate Co	663, 300
Total	13, 591, 943
Bank stocks:	
70,000 shares Skandinaviska Kredit AB	3, 752, 000
6,000 shares Stockholms Intecknings Garanti AB	964, 800
78,098 shares Preussische Hypotheken Actienbank	2, 462, 332
79,550 shares Banque de Suede et de Paris	2, 306, 500
1,989 shares Hollandsche Koopmansbank	795, 840
50,000 shares American Bank of Poland	1, 000, 000
3,231 shares Algemeine Finanzgesellschaft	419, 355
2,128 shares Skandinaviska Kredit AB	188, 200
689 shares Stockholms Intecknings Garanti AB	180, 036
49,000 shares Svenska Handelsbanken	1, 469, 964
27,026 shares Ostergotlands Enskilda Bank	1, 412, 379
2,100 shares Sundsvall Enskilda Bank	118, 188
839 shares Venersborg Enskilda Bank	33, 728
8,000 shares Smalands Enskilda Bank	128, 640
Total	15, 231, 962
Foreign Government bonds:	
371,721,841 francs French rentes, 3 per cent, 4 per cent, 5 per cent	11, 712, 581
$10,000,000 French 5 per cent bonds, 1928	9, 359, 163
Total	21, 071, 744
Other stocks and bonds:	
160,955 shares Belgian National Railways	2, 684, 065
27,023 shares Hammarsforsens Kraft AB	724, 216
Sundry	1, 375, 822
Total	4, 784, 103

1929

The consolidated balance sheet of AB Kreuger & Toll and its principal subsidiary holding companies, N. V. F. M. Kreuger & Toll and Swedish American Investment Corporation, as of December 31, 1929, shows "Other industrial stocks" of $59,377,299, "Real estate stocks in other European countries" of $13,527,300, "Bank stocks" of $15,628,562, and "Foreign government and other bonds eligible as collateral for secured debentures" of $85,274,937. According to information furnished to us, the composition of these items is as follows:

Other industrial stocks:	
38,000 shares Stora Kopparbergs Bergslags	$1, 680, 360
8,000 shares AB Svenska Kullagerfabriken	482, 400
8,713 shares Kopparberg-Hofors Sagverks AB	262, 697
5,100 shares AB Separator	246, 024
5,710 shares Finska AB Kreuger & Toll	688, 626
1,750 shares AB Svenska Flaktfabriken	281, 400
69,390 shares Finanzgesellschaft fur die Industrie	6, 310, 996
19,475 shares Societe Generale des Allumettes	3, 131, 580
Sundry	286, 152
Short-time investments	46, 007, 065
Total	59, 377, 299
Real estate stocks in other European countries:	
A. G. fur Hausbesitz	12, 864, 000
French Real Estate Co	663, 300
Total	13, 527, 300

Bank stocks:	
70,000 shares Skandinaviska Kredit AB	$3, 752, 000
2,128 shares Skandinaviska Kredit AB	188, 200
6,000 shares Stockholms Intecknings Garanti AB	964, 800
689 shares Stockholms Intecknings Garanti AB	180, 036
29,000 shares AB Svenska Handelsbanken	1, 408, 651
27,026 shares Ostergotlands Enskilda Bank	1, 412, 379
Sundry bank shares	280, 556
3,769 shares Allgemeine Finanzgesellschaft	497, 231
50,000 shares American Bank of Poland	1, 000, 000
79,550 shares Banque de Suede et de Paris	2, 306, 500
50,000 shares American Bank of Poland (new)	843, 170
1,989 shares Hollandsche Koopmansbank	795, 840
6,000,000 Reichsmarks, Deutsche Union Bank	1, 999, 200
Total	15, 628, 562
Foreign government and other bonds:	
Belgas 16,095,500 Belgian National Railways	2, 552, 079
$150,000 Jugoslavian, 1962, series A, 8 per cent	131, 422
$175,000 Jugoslavian, 1962, series B, 7 per cent	130, 675
$100,000 Jugoslavian, 1957, 7 per cent	77, 161
$8,500,000 Jugoslavian, 6¼ per cent	7, 616, 493
60,000,000 francs Rentes Fr. Perpet., 3 per cent	1, 985, 656
144,000,000 francs Rentes Fr. 1917, 4 per cent	5, 591, 268
140,000,000 francs Rentes Fr. 1918, 4 per cent	5, 413, 036
$24,500,000 French State, 1928, 5 per cent	23, 745, 537
$975,931 Mortgage Bank of Ecuador, 7 per cent	816, 192
$1,959,106 Republic of Ecuador, 8 per cent	1, 950, 525
$6,000,000 Latvia, 6 per cent	5, 495, 822
$4,800,000 Polish State, 7 per cent	4, 778, 976
968,554/19/10£ Greek Republic, 8½ per cent	4, 707, 352
380,691/1/0£ Rumanian, 4 per cent	814, 100
$4,972,000 Rumanian, 7 per cent	4, 950, 223
$11,976,550 Hungarian, 5½ per cent	10, 970, 165
Sundry Mortgage Bank bonds	3, 512, 004
Sundry Items	36, 252
Total	85, 274, 937

1930

The consolidated balance sheet of AB Kreuger & Toll and its principal subsidiary, N. V. F. M. Kreuger & Toll, as of December 31, 1930, shows "Other industrial shares" of $25,804,214, "Real-estate interests outside Sweden" of $22,136,610, "Other bank shares" of $16,512,815, and "Foreign Government and other bonds eligible as collateral for secured debentures" of $112,527,836. According to information furnished to us the composition of these items is as follows:

Other industrial shares:	
627,268 shares L. M. Ericsson Telephone Co	$10, 909, 033
34,806 shares Grangesberg Co	2, 276, 034
24,900 shares Mexikanska Telefon AB Ericsson	1, 367, 266
144,000 shares Svenska Kullagerfabriken	6, 946, 560
76,960 shares Stora Kopparbergs Bergslags AB	2, 949, 415
5,710 shares Finska AB Kreuger & Toll	688, 626
4,800 shares Kreuger & Toll Construction Co	385, 920
1,750 shares AB Svenska Flaktfabriken	281, 400
Total	25, 804, 214
Real-estate interests outside Sweden:	
120 shares AG fur Hausbesitz	12, 864, 000
Shares in and advances to S. A. Birka (Paris)	8, 512, 350
Shares in and advances to G. m. b. H. Origo (Poland)	760, 260
Total	22, 136, 610

Other bank shares:	
198,359 shares Banque de Suede et de Paris	$6, 616, 971
49,000 shares Svenska Handelsbanken	2, 915, 304
6,000 shares Hollandsche Koopmansbank	2, 865, 925
100,000 shares American Bank of Poland	1, 842, 500
10,000 shares French & Foreign Investors	750, 735
2,000 shares Soc. Fin. pour Valeurs Scandinaves, Sweden	536, 000
3,769 shares Allegemeine Finanzgesellschaft	488, 893
4,531 shares AB Bergenstrom	242, 862
325 shares AB Bernhardt	172, 200
100 shares Norrland Insurance Co	40, 200
2,000 shares Banque Contant	39, 225
Total	16, 512, 815
Foreign Government bonds:	
$105,000 Yugoslavian, 1962, 8 per cent	95, 644
$171,000 Yugoslavian, 1962, 7 per cent	131, 799
$97,000 Yugoslavian, 1957, 7 per cent	74, 763
$22,000,000 Yugoslavian, 1958, 6¼ per cent	15, 420, 988
French 4 per cent Rentes, 1918	237, 934
$963,262 Mortgage Bank of Ecuador, 7 per cent, 1949	809, 933
$1,929,044 Republic of Ecuador, 8 per cent, 1953	1, 930, 934
$6,000,000 Latvian, 6 per cent, 1964	4, 805, 669
$4,500,000 Polish, 7 per cent, 1945	4, 504, 410
956,243/9£ Greek, 8½ per cent, 1954	4, 646, 232
380,691/1£ Rumania, 4 per cent, 1968	744, 511
$23,902,841 Hungarian Mortgage Bank, 5½ per cent, 1979	19, 622, 741
56,000,000 kronen German, 5½ per cent, 1965	10, 655, 680
$3,000,000 German, 6 per cent, 1980	2, 309, 168
£9,000,000 Italian, 6 per cent, 1935	43, 518, 003
13,269,450 reichsmarks Sundry German mortgage bank bonds (chiefly 8 per cent interest)	3, 019, 426
Total	112, 527, 836

Question 8

SYNDICATE PARTICIPATIONS

In the December 31, 1928, consolidated balance sheet of AB Kreuger & Toll and its principal subsidiary holding companies, N. V. F. M. Kreuger & Toll and Swedish American Investment Corporation, there was included $8,166,515 "Syndicate participations" in the figure of $20,703,585 "accounts receivable." In the December 31, 1929, and December 31, 1930, balance sheets the amount of "Syndicate participations" was reported at $21,802,784 and $50,878,027, respectively. According to information furnished to us, the composition of the "Syndicate participations" item for 1928 and 1929 is as follows:

December 31, 1928:	
Account Svensson (Swedish pulp and lumber)	$3, 344, 485
Katanga Syndicate	1, 854, 715
Arbed Syndicate	1, 453, 517
Bank Syndicate (French bank shares)	1, 090, 999
Sundry	422, 799
Total	8, 166, 515
December 31, 1929:	
Katanga Syndicate	3, 501, 548
Arbed Syndicate	3, 141, 213
Bank Syndicate (French bank shares)	1, 897, 009
L. M. Ericsson Telefon AB	8, 166, 954
Sundry	5, 096, 060
Total	21, 802, 784

With regard to the item of "Syndicate participations" appearing in the December 31, 1930, consolidated balance sheet, the following is quoted from a memorandum furnished by Mr. Kreuger, in November, 1931:

"This item represents investments made jointly with other interests, of a more or less temporary nature, or for a particular purpose which requires their being considered in a different class than the other investments of the company."

A list of the syndicate participations is given below.

Syndicate participations as at December 31, 1930

	Kroner	United States currency
28,269 shares in Ostergotlands Enskilda Bank	5, 222, 586. 90	$1, 399, 653. 28
359,260 shares in L. M. Ericsson Telephone Co	10, 671, 951. 90	2, 860, 083. 40
10,000 shares in Deutsche Unionbank A/G, including interests in the Deutsche Bodenkredit A. G	35, 590, 000. 00	9, 538, 120. 00
French Real Estate Syndicate	29, 780, 000. 00	7, 981, 040. 00
Investments in connection with Z business [1]	36, 976, 500. 00	9, 900, 000. 00
Different interests in the German match industry	15, 366, 790. 00	4, 114, 000. 00
Hungarian General Match Manufacturing Co	15, 686, 000. 00	4, 200, 000. 00
Majority holding in Garanta Corporation	13, 636, 507. 68	3, 654, 584. 14
11,390 shares in Finanzgesellschaft fur die Industrie, Ser. A	8, 200, 800. 00	2, 197, 814. 40
58,000 shares in Finanzgesellschaft fur die Industrie, Ser. B	15, 347, 692. 67	4, 113, 181. 72
Sundry items	3, 434, 523. 20	919, 551. 06
	189, 913, 352. 35	50, 878, 027. 00

[1] Designation for Diamond Match Co.

Ostergotlands Enskilda Bank.—The shares in this bank have been bought for account of another Swedish bank which intends to amalgamate with Ostergotlands Enskilda Bank as soon as conditions admit. Aktiebolaget Kreuger & Toll is assured against any loss on this transaction and will have a fair profit on it.

L. M. Ericsson Telephone Co.—These shares were held with the intention of introducing them on the French market and an agreement had been made with a syndicate, headed by Crédit Lyonnais, for this purpose. The authorization by the French Government to introduce them was, however, delayed so long that Aktiebolaget Kreuger & Toll decided to dispose of the shares in another way.

Deutsche Unionbank A. G.—This holding represents all the shares in this bank and also a very important interest in Deutsche Bodenkredit A. G. For reasons of taxation and also on account of public opinion it has been considered preferable that Deutsche Unionbank instead of Aktiebolaget Kreuger & Toll should be owners of the shares in Deutsche Bodenkredit A. G. The bank has not given any mortgage loans on buildings owned by Aktiebolaget Kreuger & Toll.

French Real Estate Syndicate.—This represents participation in a syndicate owning real estate interests. One of the most important of these consists of shareholding in the largest real estate company in France. It owns 166 different properties in Paris and will have a very great earning power when the present rent laws elapse. During the year 1931 additional shares in this company have been acquired so that Aktiebolaget Kreuger & Toll now has the control of the company. It is the intention that the French real estate company should take over the other real estate interests owned by Aktiebolaget Kreuger & Toll in Paris.

Investments in connection with Z business.[1]—This business is of an extremely confidential nature. The intention is to transfer it to Swedish Match Co. or International Match Corporation when conditions permit.

Different interests in the German match industry.—These interests have been taken over by Aktiebolaget Kreuger & Toll on account of the German match law of 1923 prohibiting the Swedish Match Co. from owning more than 65 per cent of the German match factories. At the present time the holding serves to give Aktiebolaget Kreuger & Toll an interest in the match industry to compensate for the company having taken over part of the German loan.

Hungarian General Match Manufacturing Co.—This company owns all match factories in Hungary and has the concession for the Hungarian match monopoly.

Garanta Corporation.—This company has certain concessions in the Polish match industry.

Finanzgesellschaft fur die Industrie.—This company was created in 1925 by the Swedish Match Co., Bryant & May, England, Union Allumettière, Belgium, and Nitedals Match Co., Norway, which were at the time the four leading match enterprises in Europe. The aim of the company was to finance match interests in different countries, which interests were of such a nature that they could not

[1] Designation for Diamond Match Co.

be owned openly by any one of the four above-mentioned companies. The function of this company is to supervise agreements which exist between all match factories in Europe and to make such transfers of profits from one company to another which are a consequence of existing agreements. For reasons of secrecy as well as for reasons of taxation the shares can not be owned by Swedish Match Co.

ACCOUNTS RECEIVABLE

The December 31, 1930, consolidated balance sheet of AB Kreuger & Toll and its principal subsidiary, N. V. F. M. Kreuger & Toll, shows "Accounts receivable" of $45,378,390. According to information furnished to us, the composition of this item is as follows:

	Krona
Hufvudstaden Real Estate	14, 992, 535. 26
Swedish Pulp Co	853, 921. 15
Svenska Tandsticks Aktiebolaget	434, 041. 18
AB Sefor	7, 687, 470. 35
R. Bothen	204, 414. 52
Hentsch & Co., Geneva	1, 673, 670. 03
Sirius Share suspense a/c	4, 280, 470. 03
Societe Generale des Allumettes	2, 857, 719. 04
Italian suspense account	116, 703, 112. 50
Hungarian suspense account	3, 149, 059. 75
Spanish suspense account	1. —
A/c for interest due	2, 047, 208. 50
Sundry debtors	14, 438, 727. 25
	169, 322, 350. 56

Equivalent to $45,378,390.

We do not have detailed information concerning the "Accounts receivable" tems in 1928 and 1929.

Senator COSTIGAN. During all the transactions to which reference has been made you were, I believe, a director of Kreuger & Toll, also of Lee, Higginson & Co.?

Mr. DURANT. That is not quite correct. I was a member of the firm of Lee, Higginson & Co., but I did not become a director of Kreuger & Toll until after this issue which we have just been discussing was bought.

Senator COSTIGAN. Do you recall the date when you became such a director?

Mr. DURANT. I think I was elected by the stockholders at their meeting in 1929, which was probably in April or May, some such time as that, or June.

Senator COSTIGAN. And have continued to be a director ever since?

Mr. DURANT. That is right.

Senator COSTIGAN. Have you ever attended a meeting of the board of directors of Kreuger & Toll?

Mr. DURANT. Not until after Mr. Kreuger's death, I went to Sweden.

The CHAIRMAN. And you became a member of the board at what date?

Mr. DURANT. The exact date, Senator, I do not recall. In the spring of 1929.

The CHAIRMAN. And Kreuger's death was when?

Mr. DURANT. Kreuger's death was 1932; March.

The CHAIRMAN. In other words, you were a director for three years but did not attend the directors' meetings?

Mr. DURANT. That is correct. The directors' meetings were held in Sweden.

Senator COSTIGAN. He committed suicide in Paris?

Mr. DURANT. Yes.

Senator COSTIGAN. Were you in Paris and in the same hotel at the time?

Mr. DURANT. No, sir; not in the same hotel. I was in Paris. He was in his own apartment.

Mr. MARRINAN. Mr. Chairman, I would like to have inserted in the record at this point as an exhibit a report prepared for the committee by Lee, Higginson & Co. and delivered to me, under date of January 5, 1933, setting forth the present status of this collateral pledged.

The CHAIRMAN. If there is no objection it may be printed in the record.

(Report prepared for the Senate Banking and Currency Committee by Lee, Higginson & Co. setting forth present status of collateral pledged, was marked "Exhibit B," and is here printed in the record in full, as follows:)

Collateral on deposit for Kreuger & Toll Co. 5 per cent secured debentures

	Amount	Annual interest yield on issues on which service being met as of Mar. 12, 1932	Remarks
On deposit, Mar. 12, 1932:			
Republic of Ecuador, 8 per cent, 1953	$1,879,290	$150,343	July 1, 1932, payment not made.
Mortgage Bank of Ecuador, 7 per cent, 1949	922,530	64,577	All payments to date; next Feb. 1, 1933.
Republic of Latvia, 6 per cent, 1964	6,000,000	360,000	All payments to date; next July 15, 1933.
Hungarian Mortage Bank, 5½ per cent, 1979	23,848,754	(1)	
Kingdom of Jugoslavia, 6½ per cent, 1958	22,000,000	1,375,000	Dec. 1, 1932, payment not made.
Rumanian Government, 4 per cent, 1968 (£380,691).	[2] 1,852,628	[2] 55,733	All payments to date(?); next Apr. 1, 1933.
Rumanian Government, 7½ per cent, 1971 (Fcs.. 74,900,000).	[2] 2,928,630	[2] 219,647	All payments to date; next Apr. 1, 1933.
German International, 5½ per cent, 1965 (Kr. 55,000).	[2] 14,047	[2] 810	All payments to date; next June 1, 1933.
Total	59,445,878	2,226,110	
Changes since Mar. 12, 1932:			
Withdrawn—			
Mortgage Bank of Ecuador	14,539	(3)	
Rumanian 7½ (Fcs. 295,000)	[2] 11,800		
	26,339		
Total	59,419,539		
Added: Cash account, interest and amortization payments received.	1,091,040		
Total	60,510,579	[3] 700,000	
Secured debentures outstanding	47,596,500		
Annual interest requirement thereon		2,379,825	

[1] Jan. 15, 1933, payment not made on account of moratorium; annual rate due, $1,311,640.
[2] Approximate dollar equivalent.
[3] Approximate present annual interest yield after allowing for defaults subsequent to Mar. 12, 1932.

Senator COSTIGAN. Before we proceed, may I ask Mr. Durant why you became a member of the board of directors of Kreuger & Toll if you were not expected to attend the directors' meetings?

Mr. DURANT. Because I thought it would increase our contact with the business, and that it has been my expereince that a good deal

can be accomplished by a director outside of meetings. That the fact that one is a director even gives one closer contact.

Mr. MARRINAN. As a basis for a further examination of Mr. Durant, I now wish to examine certain ramifications of this situation into the newspaper field.

The publicity and advertising given to the Kreuger & Toll issue of secured debentures through the press and in advertisements in the financial sections of many newspapers obviously played an important role in the investment of a large sum of American money in the issue of secured debentures. It seemed desirable to examine this situation with a view to ascertaining what safeguards in behalf of the investor were set up in the field of publicity and advertising.

For that purpose, the New York Times was selected because of reputation. The Times has developed a system of examining security issues which it does not appear is excelled by any other newspaper in the United States.

If the New York Times were unable to afford safeguards, it is improbable that other newspapers are in a position to so do.

Investigation disclosed that when a banking house or other financial advertiser floated its first issue, the Times makes a very exhaustive investigation of its financial and moral responsibility. The only exception to this rule is when application for advertising space comes from a reputable bank or from a house holding membership on the New York Stock Exchange. The regular system of bank examination and the good repute of the New York Stock Exchange in financial circles persuades the Times to waive such examinations in these two instances.

Otherwise, applicants for advertising space are sent a questionnaire, or a series of questionnaires, differing in some degree by reason of the nature of the business, but generally asking for the following information:

The place of business.

The names of all officers and their addresses.

The prior business connection of all such officers, which information is checked against information furnished by such commercial agencies as Bishop's, Proudfoot's or the Research Service. With banking and brokerage concerns, inquiries are made as to their membership in exchanges, their use of stock exchange or other news tickers, their leased wires, and what business organizations they hold membership in.

They are further asked for two banking connections and their credit examined.

Inquiry is made as to whether any of their officers are personally acquainted with bank officials. The banks are asked how they came to secure the accounts.

They are further requested to furnish one bank reference and four business references.

They are required to file a financial statement signed by an officer of the company, witnessed and sealed.

This information, together with such collateral information as may be available in the reference files of the Times is examined by the financial advertising staff and then passed on with comment to a committee on acceptance comprised of six members, five of whom are department heads of the New York Times, and the sixth is chairman of the committee.

If acceptance of the advertising is declined by the committee, the applicant company may ask for the privilege of a hearing by a responsible officer of the concern, to make personal appearance before the committee and furnish additional information. When this transpires, a review of the situation is made which, if still negative, results in the final rejection of advertising offered by the applicant concern.

The facilities of the local and national better business bureaus are used, those of the stock exchange, the Attorney General's office, and the various State securities departments to supplement the information furnished in questionnaires.

This general procedure applies to all new companies and new issues which are not directly sponsored by a reputable banking house or a member of the New York Stock Exchange.

The Kreuger & Toll issue floated by Lee, Higginson & Co., members of the New York Stock Exchange, and also a banking institution of good repute, was not subjected to the examination above outlined.

I wish to submit for the record at this time copies of questionnaires, the usual questionnaires used by the New York Times for this purpose.

The CHAIRMAN. Do you want them printed in the record?

Mr. MARRINAN. Yes.

The CHAIRMAN. If there is no objection, they may be printed in the record.

(The New York Times questionnaires above referred to are here printed in the record in full, as follows:)

THE NEW YORK TIMES,
Times Square, New York.

(Financial advertising department)

Confidential information regarding firm or corporation issuing securities, advertising of which is offered for publication on the financial pages of The New York Times.

Date _____

1. Name of company _____
2. Location and description of properties _____
3. Nature of advertising to be done _____
4. Business _____
5. How long established _____
6. Authorized capital: Common _____ Preferred _____
7. Amount outstanding: Common _____ Preferred _____
8. Par value _____
9. Amount of cash paid in _____
10. For what purpose was balance of outstanding capital issued _____
11. Is company on a producing and marketing basis _____
12. Has company paid dividends _____
13. How long _____
14. Date of last dividend: Preferred _____ Common _____
15. Dividend rate last three years: Preferred _____ Common _____
16. Net earnings per year for last three years _____
17. Are securities of company listed on any exchange and where _____
18. Is the company rated by Dun or Bradstreet _____
19. Officers and directors and their addresses with present and prior business connections:
20. References, including one bank:
    (1) _____
    (2) _____
    (3) _____
21. Attach financial statement signed by an official of the company.

22. Attach proofs of advertisements placed by you with other publications. Give names of publications.

Signed _____

THE NEW YORK TIMES,
Times Square, New York.

(Financial advertising department)

Confidential information regarding individual, firm, or corporation dealing in securities whose advertising is offered for publication on the financial pages of The New York Times.

Date _____

1. Firm or individual_____
2. Address_____
3. Exact nature of business_____
4. How long established_____
5. Officers, special partners, and others financially or otherwise interested and business connections prior to present affiliation. (Name)_____
   (Prior connections)_____ (Dates)_____
   _____
6. Bank connections_____
   _____
7. Exchange membership_____
8. Association memberships_____
9. Have you a stock exchange ticker?_____ 9a. Curb ticker?_____
   9b. Have applications been made?_____
   9c. Private wires, to whom?_____
10. Rating by Dun, Bradstreet, or other agency_____
11. Business references (and their addresses), preferably financial houses of established standing.
    (a) _____
    (b) _____
    (c) _____
    (d) _____
    (e) _____
12. If financial statement is available, kindly attach.
13. Attach proofs of advertisements placed by you with other publications. Give names of publications.

Signed _____

THE NEW YORK TIMES

Information is required of advertisers offering or seeking partnership or investment in a firm; or offering or seeking business connections, distributorships, agencies, etc.

(This information is held confidential)

Advertiser' name_____
Business address_____
Nature of business_____
Business telephone_____

ONE BANK AND TWO BUSINESS REFERENCES

1_____ Telephone_____
   Address_____
2_____ Telephone_____
   Address_____
3_____ Telephone_____
   Address_____
Commercial ratings? _____

Give the following information if an investment in business is sought:
How long established_____ Is company organized or incorporated_____
Names of partners if a firm; or officers if a corporation with previous business connections_____
_____

CONFIDENTIAL QUESTIONNAIRE FOR INVESTMENT TRUSTS

THE NEW YORK TIMES,
Date_____

1. Full name of the trust_____
2. Name of depositor corporation, officers, and prior business connections_____
_____
3. Organized under what laws of what State:
   (a) Trust_____
   (b) Depositor corporation_____
4. Is business conducted under a deed of trust, as a common law trust, or as an association?_____
5. Trustee_____
6. (a) Date of trust agreement_____
   (b) Date of trust termination_____
   (c) If provision is made for extension of trust, give full details_____
   _____
   (d) Name of attorneys who approved trust agreement_____
   _____
7. Furnish list of securities now in portfolio. (Give full details)_____
   _____
   _____
8. Does indenture prohibit purchase of securities from officers, directors, stockholders, or others interested_____
9. State what proportion of the unit is represented by each share of trust_____
   _____
10. (a) Coupon or registered form_____
    (b) Accumulative or distributive_____
11. How much capital represents—
    (a) Securities_____
    (b) Organization expenses_____
    (c) Organizers bonus_____
12. Does the depositing corporation give its stock as a bonus on sales? _____
13. State in detail facts pertaining reserve fund:
    (a) Amount per unit_____
    (b) Created out of earnings, or what other source? _____
    (c) If invested, in what? _____
    (d) If held in cash, is interest paid?_____What rate?_____
    (e) Who shares in reserve fund?_____
    (f) For what purpose can money be withdrawn from reserve fund?_____
    _____
14. (a) What is done with stock dividends, split-ups, rights, etc.?_____
    _____
    (b) If sold, within what period?_____
    (c) State whether trustee or depositor corporation sells stock dividends, stock splits, etc_____
15. (a) Is this a fixed trust or is there power or elimination and/or substitution?
    _____
    (b) Give details as to elimination or substitution_____
    (c) Name of persons who decide substituted collateral and history of their prior experience_____
    (d) Are proceeds added to distributive fund or reinvested?_____
    (e) If reinvested, in what?_____
16. (a) Who pays trustees fees?_____
    (b) When?_____
    (c) Can trustee place a lien on securities and other property for non-payment of trustees fees?_____
    (d) Are trustees fees deducted from income?_____ Explain_____
    _____
17. How much set aside for incorporations and managers?_____

18. (a) What is the "load" or "mark-up"?
    (b) Is this computed on the offering price on underlying securities or on the cost of securities in the portfolio?
    (c) Original price in $
    (d) What percentage of the value of the underlying trust property is this loading charge?
19. State in detail method of conversion into cash
    (a) Charges if any
    (b) What maintenance charges are there?
    (c) What relation, in terms of percentage, has this charge to the value of the underlying trust property?
20. (a) State in detail disposition of trust assets upon termination of trust
    (b) Are expenses deducted before final distribution?
21. (a) How are stocks for the trust purchased?
    (b) State methods of price computation
    (c) In quoting the market price of this, do you use bid or asked price of the underlying securities?
22. (a) What has been earned on investments to date?
    (b) How has the amount been earned?
23. (a) Give past record of disbursements
    (b) What portion of the amount earned has been paid to investors?
23. (c) Fees incurred if any
    (d) Can management sell short?
24. (a) Number of shares outstanding
    (b) Number of individual shareholders
    (c) Do you sell shares on installment or partial payment plan?
    (d) Have holders of trust certificates any voting privileges, if so, what?
25. Price range since formation, by years
26. Method employed for sales distribution of securities issued by the investment trust and names and addresses of principal distributors
27. (a) Do you publish regular quarterly statements of condition? If not, when
    (b) Is independent and competent auditor employed to make these statements?
    Who is your auditor?
    (c) Do you put out preliminary reports of condition?
28. (a) Attach if possible copy of proposed advertisement.
    (b) Attach proofs of advertisements from other publications.
    (c) Attach if possible copy of trust indenture, or any other data pertaining to the trust.
29. Attach latest financial statement.

Do you permit statements in your advertising, or by your salesmen, tending to show results which would have been obtained if an investment had been made in the securities comprising the portfolio at any time prior to its creation?

Signed
(Officer of Depositor Corporation)

THE NEW YORK TIMES,
Times Square, New York.

(Financial advertising department)

Confidential information requested regarding real estate bond offering, advertising of which is submitted for publication on the financial pages of the New York Times.

Date

1. Name of borrowing corporation
2. Officers and directors
3. Location of property and type of building
4. Is this a construction loan?
5. Title or designation of issue
6. Name of independent trustee
7. Date of issue
8. Amount of loan
9. Date or dates of maturity

10. Rate and interest dates
11. Priced to yield
12. What other liens
13. Amounts of appraisals, land and improvements
14. By whom and dates
15. Gross rentals, actual or estimated
16. If estimated, by whom and what allowance of vacancies
17. Gross expenses, management, taxes, etc. (before interest charges on these bonds)
18. Amortization or sinking fund
19. Bonds guaranteed? By whom?
20. What is the total amount of finance fees on this loan?
21. Describe or enclose advertising contemplated

Signed

Mr. MARRINAN. It appears that the New York Times while exercising every diligence to ascertain the financial and moral responsibility of new applicants for advertising space—which I may say is a statement which may be broadly applied to the press—has been up to this time, willing to accept the sponsorship of reputable banks and of the New York Stock Exchange without question. Moreover, it does not appear possible for the Times or any other newspaper to set up machinery equal in effect to that already in existence in the banking field and in the organization of the stock exchange. We, therefore, have here a situation in which, more broadly speaking, the press is at present dependent, and does in fact, rely upon the sponsorship or other indorsement of banking institutions and members of the New York Stock Exchange in advertising and giving publicity to securities issues.

Mr. Durant, can you tell the committee how the advertising copy for the Kreuger & Toll secured debenture issue was prepared?

Mr. DURANT. No, sir; I can not of my own knowledge.

Senator GOLDSBOROUGH. May I ask a question, Mr. Chairman?

The CHAIRMAN. Yes.

Senator GOLDSBOROUGH. Mr. Durant, is it within your knowledge to state that the New York Times is the only newspaper in the country that makes careful examination of all applications for financial advertisements?

Mr. DURANT. It is not possible for me to so state.

The CHAIRMAN. Is it customary for the papers to accept advertisements provided they have been listed on the exchange?

Mr. DURANT. Senator Norbeck, I do not know of my own knowledge about that. I have never handled the advertising directly.

Senator FLETCHER. Mr. Durant, did you know Mr. Kreuger well, personally?

Mr. DURANT. Yes, sir; I have known him for a number of years. Almost 10 years.

Senator FLETCHER. For a number of years?

Mr. DURANT. Yes.

Senator FLETCHER. Were your relations close to him generally?

Mr. DURANT. In a business way. He came to this country two or three times—a couple of times a year.

Senator FLETCHER. Did you know of his realizing he was in financial difficulty just before he committed suicide?

Mr. DURANT. No, sir. I knew he was ill at one time shortly before he went away, but I did not realize he was in financial difficulty or that he thought he was.

Senator FLETCHER. Well, in Paris did you have any conferences with him showing difficulties of this kind?

Mr. DURANT. No, sir. He failed to attend the first conference. He killed himself before he attended.

Senator COSTIGAN. Did you return with him to Europe on his last trip to Paris?

Mr. DURANT. Yes. I was on the same steamer.

Senator COSTIGAN. Do you know why he returned?

Mr. DURANT. Well, I think he was through with the business on this side that brought him. And he stayed rather longer than before.

Senator COSTIGAN. Had a demand been made on him for the return of several million dollars by the I. T. & T. and was he seeking to raise that fund?

Mr. DURANT. I think he was seeking means to return that; yes, sir.

Senator COSTIGAN. Had you been acquainted with the fact that he was in need of a substantial sum of money to meet that demand at the time of his return to Paris?

Mr. DURANT. Just before he returned I was informed that he had signed an agreement to give that money back within a period of time, or make some other arrangements. And I believe he went over to confer with his bankers as to how best to do that.

Senator COSTIGAN. That fact raised no doubts in your mind or in the minds of your financial associates as to his financial responsibliity?

Mr. DURANT. No doubt at all. It was a cash item rather than an earning item.

Senator COSTIGAN. Returning for a moment to the subject of your directorship. Is it the view of leaders of finance at this time in the United States, or is it your view, that the director of a corporation is under no obligations to direct its business?

Mr. DURANT. I certainly can not speak for anyone else except myself. And it is my feeling that it comes down to a question of the use of the word "direct." I do not think it is the duty of a director to actually run the business. I think he should have responsibilities and watch the management, and if he has any doubts about the management the director should take proper steps. But the actual running of the business can not very well be done by directors in the American sense.

Senator COSTIGAN. Is it your opinion that the director is under no obligations to attend directors' meetings and participate with other directors in the discussion of its affairs?

Mr. DURANT. I think he should do it whenever possible.

Senator FLETCHER. How many American directors were there of Kreuger & Toll?

Mr. DURANT. Only one.

Senator COSTIGAN. You were the only one?

Mr. DURANT. Yes, sir.

Senator COSTIGAN. Were you at all sensitive over the fact that your name was being held out to the public as a director of Kreuger & Toll without attendance at directors' meetings by you?

Mr. DURANT. Senator, I did not know that it was being held out to the public in any such sense.

Senator COSTIGAN. Was your name not known generally to be that of a director?

Mr. DURANT. It was known, but I do not know that it meant anything except that I was a director.

Senator COSTIGAN. In other words, you do not think the investing public ought to draw any inference from the fact that the names of distinguished financiers are associated with concerns in which they seek to make investments, or as directors of those concerns?

Mr. DURANT. Well, the fact that I was a director did not show the public that I was much closer to it than I already was, as a member of Lee, Higginson & Co.

Senator COSTIGAN. Did that duality of representation embarrass you in any respect?

Mr. DURANT. No, sir.

Senator COSTIGAN. In considering, for example, the question of the substitution clause in the indenture?

Mr. DURANT. I do not feel that it did.

Senator COSTIGAN. That is all.

Mr. MARRINAN. Mr. Durant, what is the purpose of including in such an advertisement as I have here from the New York Times on this secured debenture issue the note that legal matters are being cared for by the distinguished firms in Boston and New York which you have already mentioned? Why did you do that? We are talking about advertising copy now. Are you advertising the issue and are you using the firm to do it, or are you advertising the lawyers, or what is the situation?

Mr. DURANT. Simply informing the investor of the name of the firm that is going to handle the legal details.

Mr. MARRINAN. Mr. Chairman, I would like to insert in the record at this point copy of an advertisement of this issue published in the New York Times as of Thursday, March 7, 1929.

Senator FLETCHER. What is it?

Mr. MARRINAN. This is an advertisement, Senator Fletcher, by Lee, Higginson & Co. and all the participating subhouses of issue.

The CHAIRMAN. If there is no objection it will be printed in the record.

(Advertisement of $50,000,000 Kreuger & Toll Co. 5 per cent secured sinking fund gold debentures appearing in the New York Times, Thursday, March 7, 1929, is here printed in the record in full, as follows:)

[New York Times, Thursday, March 7, 1929]

New issue—$50,000,000 Kreuger & Toll Co. (Aktiebolaget Kreuger & Toll), Stockholm, Sweden, 5 per cent secured sinking fund gold debentures bearing warrants for purchase of American certificates representing participating debentures of the company. Dated March 1, 1929. Due March 1, 1959. Interest payable March 1 and September 1. Principal and interest payable, free of any present or future Swedish taxes as to debentures held by other than a resident of Sweden, in United States gold coin, at offices of Lee, Higginson & Co., in New York, Boston, and Chicago, or at option of holder in sterling, at fixed rate of £205 per $1,000, at offices of Higginson & Co., London. Coupon debentures of $1,000 and $500 denominations, interchangeable. Callable, in whole or in part, at any time on 30 days' notice at 105 and accrued interest. Sinking fund sufficient to retire entire issue by maturity. Lee, Higginson Trust Co., Boston, trustee. Skandinaviska Kreditaktiebolaget, Stockholm, depository.

Each secured debenture will carry a nondetachable warrant for the purchase, upon presentation of the secured debenture with warrant attached and payment of $45 per American certificate, at any time on or prior to December 31, 1930, or the redemption date of the secured debenture, whichever is earlier, of 16 or 8 American certificates (according as the secured debenture is of the denomina-

tion of $1,000 or $500) representing participating debentures of Krueger & Toll Co., American certificates representing participating debentures are listed on the New York Stock Exchange.

Of this issue, substantial blocks are being simultaneously offered in other countries by the following banks and financial institutions:

England: Higginson & Co., N. M. Rothschild & Sons.

Sweden: Skandinaviska Kreditaktiebolaget.

Holland: Hope & Co., Teixeira de Mattos Brothers, Deutsche Bank, Hollandsche Koopmansbank.

Switzerland: Swiss Bank Corporation, Crédit Suisse, Union Financière de Genève, Banque Fédérale S. A., Banque Commerciale de Bâle, Leu & Co.'s Bank (Ltd.), Union de Banques Suisses, Banque Populaire Suisse, Société Financière pour Valeurs Scandinaves en Suisse, C. J. Brupbacher & Cie., Pictet & Cie.

Capitalization of Kreuger & Toll Co. to be outstanding upon completion of present financing including issuance of Kr. 16,250,000 participating debentures now being offered to holders of participating debentures and ordinary shares.

5 per cent secured sinking fund gold debentures, due Mar. 1, 1959 (additional debentures issuable under provisions of debenture agreement)	$50, 000, 000
Participating debentures authorized Kr. 130,000,000. Outstanding Kr. 81,250,000 par value, equivalent to. Reserve for exercise of the above-described warrants, Kr. 16,000,000	21, 775, 000
Ordinary shares, authorized and outstanding, Kr. 65,000,000 par value, equivalent to	17, 420, 000

From the letter of Kreuger & Toll Co., signed by Ivar Kreuger, Esq., the following is summarized:

Kreuger & Toll Co., organized in 1911 under Swedish laws, is an organizing, managing, and financing company with assets including interests in some of the world's largest and most important enterprises. It is the largest stockholder in Swedish Match Co. (with its subsidiaries the largest match manufacturing and distributing organization in the world) and has at various times cooperated financially with that company and its principal subsidiary, International Match Corporation.

Purpose of issue: In obtaining government concessions for the right to manufacture and sell matches in various countries, large amounts of securities are frequently acquired by Swedish Match Co. and International Match Corporation in return for advances made to governments from which concessions are obtained. These operations have in recent years become increasingly important and as the business of those companies is essentially industrial in character it has been deemed advisable in general to transfer to Kreuger & Toll Co. the handling of such securities.

Proceeds of this issue and of Kr. 16,250,000 participating debentures being simultaneously offered to existing holders of participating debentures and ordinary shares, will be applied toward acquisition from Swedish Match Co. and/or International Match Corporation of approximately $78,000,000 par value securities now owned by those companies or to be presently acquired by them under pending negotiations.

Security: The secured debentures will be the direct obligation of Kreuger & Toll Co., and will be secured by pledge, under a debenture agreement, of securities of the following character:

(*a*) Bonds or notes issued or guaranteed by any sovereign state or any political subdivision thereof including any municipality, having authority to issue or guarantee bonds or notes and having a population in excess of 300,000.

(*b*) Bonds or notes issued or guaranteed by mortgage banking institutions or societies (in which the company may but need not have an interest) and secured by mortgages on agricultural or city property or entitled by special law to priority on such property.

(*c*) Shares in railway or other companies on which dividends at a minimum rate are guaranteed by any sovereign state.

Securities to be pledged initially will have a total par value (as defined in the debenture agreement) equivalent to not less than 120 per cent of the $50,000,000 par value secured debentures now to be issued, and an annual income (at rates of interest and guaranteed dividends currently payable thereon) equivalent to not less than 120 per cent of the $2,500,000 annual requirement for interest on the secured debentures.

In view of the nature of the business of the company, the debenture agreement will contain broad provisions in regard to withdrawal and substitution of pledged securities. Provision will also be made for issuance, on certain conditions, of additional secured debentures ranking equally with this issue.

Assets: Total net assets of Kreuger & Toll Co. and its wholly-owned subsidiaries (Swedish American Investment Corporation and N. V. Financieele Maatschappij Kreuger & Toll) based on the December 31, 1928 consolidated balance sheet, adjusted to give effect to present financing, amount to more than $212,000,000, or over four times this issue of $50,000,000 secured debentures.

In addition to the securities to be acquired through the present financing, such assets include substantial stock interests in Swedish Match Co., in Grangesberg Co. (largest producer of iron ore in Europe), and in real estate companies and banks in various European countries.

Earnings: Consolidated net earnings of Kreuger & Toll Co. and its wholly-owned subsidiaries (Swedish American Investment Corporation and N. V. Financieele Maatschappij Kreuger & Toll) for the 3 years ended December 31, 1928, before interest on debentures and after adjustment for intercompany items and dividends on Swedish American Investment Corporation participating preferred stock now retired, are as follows:

Year ended December 31:

1926	$7, 981, 325
1927	12, 409, 606
1928	21, 025, 988

Such net earnings for the above three years average over three and three-quarter times the $3,588,750 annual requirement for interest on the $50,000,000 secured debentures and interest, at the fixed minimum rate of 5 per cent, on the Kr. 81,250,000 participating debentures to be outstanding upon completion of this financing. For the year 1928 such net earnings were over five and three-quarter times this requirement.

The above earnings include no income from securities and participations to be acquired out of proceeds of the present financing or full annual income from proceeds of participating debentures issued in September, 1928. Additional income from these sources can conservatively be estimated at not less than $7,000,000 per annum.

Net earnings for 1928, as above, together with the $7,000,000 estimated minimum additional income, after deducting the annual requirement for interest on the $50,000,000 secured debentures, amounts to $25,525,988, or 65 per cent of the total Kr. 146,250,000 ($39,195,000) par value participating debentures and ordinary shares to be outstanding upon completion of this financing, and is equivalent to $3.48 per American certificate. No allowance has been made in these calculations for American certificates (representing participating debentures) which may be issued against exercise of warrants.

Based on present quotations, the Kr. 65,000,000 ($17,420,000) par value participating debentures and the Kr. 65,000,000 ($17,420,000) par value ordinary shares now outstanding have a total market value of over $270,000,000.

The company has agreed to make application to list these secured debentures on the New York Stock Exchange. Price 98 and accrued interest, yielding over 5⅛ per cent.

Secured debentures offered when, as and if issued and received by us and subject to approval of counsel. Legal matters in connection with this issue will be passed upon by Messrs. Ropes, Gray, Boyden & Perkins, of Boston, Messrs. Carter, Ledyard & Milburn, of New York, and Iver Engellau, Esq., of Stockholm. It is expected that delivery will be made in the first instance in the form of Lee, Higginson & Co. interim receipts with non-detachable subscription warrants attached and that such interim receipts will be ready on or about March 21, 1929.

LEE, HIGGINSON & CO.
GUARANTY COMPANY OF NEW YORK.
BROWN BROTHERS & CO.
CLARK, DODGE & CO.
THE NATIONAL CITY CO.
DILLON, READ & CO.
THE UNION TRUST CO. OF PITTSBURGH.

All conversions of foreign currencies to dollars used herein have been made at par of exchange. The above statements, while not guaranteed, are based upon information and advice which we believe accurate and reliable.

Mr. MARRINAN. Mr. Durant, will you please identify for purposes of the record that document as a copy of your prospectus on the Kreuger & Toll secured debenture issue, and also, I believe, on the participating debentures which are involved in this matter by reason of the nondetachable warrants secured to the bonds. Are those both copies of the prospectuses?

Mr. DURANT. I believe so.

Mr. MARRINAN. Mr. Chairman, I would like to submit for the record copies of those two prospectuses and ask that they may be made a part of the record.

The CHAIRMAN. There being no objection they will be printed in the record.

(The two prospectuses referred to, one being for $50,000,000 Kreuger & Toll Co. 5 per cent secured sinking fund gold debentures, and the other being American Certificates representing Kreuger & Toll Co. participating debentures are here printed in the record in full, as follows:)

NEW ISSUE

$50,000,000

KREUGER & TOLL CO.,
(Aktiebolaget Kreuger & Toll),
Stockholm, Sweden.

Five per cent secured sinking fund gold debentures, bearing warrants for purchase of American certificates representing participating debentures of the company.

Dated March 1, 1929; due March 1, 1959; interest payable March 1 and September 1. Principal and interest payable, free of any present or future Swedish taxes as to debentures held by other than a resident of Sweden, in United States gold coin, at offices of Lee, Higginson & Co., in New York, Boston, and Chicago, or at option of holder in sterling, at fixed rate of £205 per $1,000, at offices of Higginson & Co., London. Coupon debentures of $1,000 and $500 denominations, interchangeable. Callable, in whole or in part, at any time on 30 days' notice at 105 and accrued interest.

Sinking fund sufficient to retire entire issue by maturity. Lee, Higginson Trust Co., Boston, trustee; Skandinaviska Kreditaktiebolaget, Stockholm, depositary.

Each secured debenture will carry a nondetachable warrant for the purchase, at any time on or prior to December 31, 1930, or the redemption date of the secured debenture, whichever is earlier, of 16 or 8 American certificates (according as the secured debenture is of the denomination of $1,000 or $500) representing participating debentures of Kreuger & Toll Co., upon presentation of the secured debenture with warrant attached and payment of $45 per American certificate.

Capitalization of Kreuger & Toll Co. to be outstanding upon completion of present financing (issuance of $50,000,000 secured debentures and issuance of Kr. 16,250,000 additional participating debentures).

Five per cent secured sinking fund gold debentures, due March 1, 1959 (additional debentures issuable under provisions of debenture agreement), $50,000,000; participating debentures, authorized Kr. 130,000,000, outstanding Kr. 81,250,000 par value, equivalent to $21,775,000; reserved for exercise of warrants, Kr. 16,000,000; ordinary shares, authorized and outstanding, Kr. 65,000,000 par value, equivalent to, $17,420,000.

From the accompanying letter of Kreuger & Toll Co., signed by Ivar Kreuger, Esq., the following is summarized:

Kreuger & Toll Co., organized in 1911 under Swedish laws, is an organizing, managing and financing company with assets including interests in some of the world's largest and most important enterprises. It is the largest stockholder in Swedish Match Co. (with its subsidiaries the largest match manufacturing and distributing organization in the world) and has at various times cooperated financially with that company and its principal subsidiary, International Match Corporation.

Purpose of issue: In obtaining government concessions for the right to manufacture and sell matches in various countries, large amounts of securities are frequently acquired by Swedish Match Co. and International Match Corporation in return for advances made to the governments from which concessions are obtained. These operations have in recent years become increasingly important and as the business of those companies is essentially industrial in character it has been deemed advisable in general to transfer to Kreuger & Toll Co. the handling of such securities.

Proceeds of this issue and of Kr. 16,250,000 participating debentures being simultaneously offered to existing holders of participating debentures and ordinary shares, will be applied toward acquisition from Swedish Match Co. and/or International Match Corporation of approximately $78,000,000 par value securities now owned by those companies or to be presently acquired by them under pending negotiations.

Security: The secured debentures will be the direct obligation of Kreuger & Toll Co. and will be secured by pledge, under a debenture agreement, of securities of the following character:

(*a*) Bonds or notes issued or guaranteed by any sovereign state or any political subdivision thereof including any municipality having authority to issue or guarantee bonds or notes and having a population in excess of 300,000.

(*b*) Bonds or notes issued or guaranteed by mortgage banking institutions or societies (in which the company may but need not have an interest) and secured by mortgages on agricultural or city property or entitled by special law to priority on such property.

(*c*) Shares in railway or other companies on which dividends at a minimum rate are guaranteed by any sovereign state.

Securities pledged will have a total par value equivalent to not less than 120 per cent of the $50,000,000 par value secured debentures now to be issued, and an annual income (at rates of interest and guaranteed dividends currently payable thereon) equivalent to not less than 120 per cent of the $2,500,000 annual requirement for interest on the secured debentures.

For a list of securities so to be pledged and provisions of the debenture agreement regarding issuance of additional secured debentures (in unlimited amount) and withdrawal and substitution of pledged securities, reference is made to the accompanying letter.

Assets: Total net assets of Kreuger & Toll Co. and its wholly owned subsidiaries (Swedish American Investment Corporation and N. V. Financieele Maatschappij Kreuger & Toll), based on the December 31, 1928 consolidated balance sheet, adjusted to give effect to present financing, amount to more than $212,000,000, or over four times this issue of $50,000,000 secured debentures.

In addition to the securities to be acquired through the present financing, such assets include substantial stock interests in Swedish Match Co., in Grangesberg Co. (largest producer of iron ore in Europe) and in real estate companies and banks in various European countries.

Earnings: Consolidated net earnings of Kreuger & Toll Co. and its wholly owned subsidiaries, before interest on debentures and after adjustment for intercompany items and dividends on Swedish American Investment Corporation participating preferred stock now retired, for the three years ended December 31, 1928, average over three and three-fourths times the $3,588,750 annual requirement for interest on the $50,000,000 secured debentures and interest, at the fixed minimum rate of 5 per cent, on the Kr. 81,250,000 participating debentures to be outstanding upon completion of this financing. For the year 1928 such net earnings were over five and three-fourths times this requirement.

American certificates (representing participating debentures) now outstanding are listed on the New York Stock Exchange and the company has agreed to make application to list these secured debentures; price 98 and accrued interest, yielding over 5⅛ per cent.

Secured debentures offered when, as and if issued and received by us and subject to approval of counsel. Legal matters in connection with this issue will be passed upon by Messrs. Ropes, Gray, Boyden & Perkins, of Boston; Messrs. Carter, Ledyard & Milburn, of New York; and Ivar Engellau, esq., of Stockholm. It is expected that delivery will be made in the first instance in the form of Lee, Higginson & Co. interim receipts with nondetachable subscription warrants

attached and that such interim receipts will be ready for delivery on or about March 21, 1929.

LEE, HIGGINSON & CO.
GUARANTY CO. OF NEW YORK.
BROWN BROTHERS & CO.
CLARK, DODGE & CO.
THE NATIONAL CITY CO.
DILLON, READ & CO.
THE UNION TRUST CO. OF PITTSBURGH.

All conversions of foreign currencies to dollars used herein have been made at par of exchange. Statements contained in this circular, while not guaranteed, are based upon information and advice which we believe accurate and reliable. March, 1929.

KREUGER & TOLL CO.,
(Aktiebolaget Kreuger & Toll)
Stockholm, Sweden, March 5, 1929.

Messrs. LEE, HIGGINSON & CO.

DEAR SIRS: In connection with the new issue of $50,000,000 Kreuger & Toll Co. 5 per cent secured sinking fund gold debentures, due March 1, 1959, bearing warrants for the purchase of American certificates representing participating debentures of the company, the following information is submitted:

BUSINESS

Kreuger & Toll Co., organized in 1911 under Swedish laws, is an organizing, managing, and financing company with assets including interests in some of the world's largest and most important enterprises. It is the largest stockholder in Swedish Match Co. and has at various times cooperated financially with that company and its principal subsidiary, International Match Corporation. Kreuger & Toll Co. also maintains relations with other enterprises, in Sweden and abroad, in order to facilitate financing incident to large industrial and commercial transactions. Through these connections the company enjoys, without cost, the benefits of an organization of the highest type with representatives throughout the world.

PURPOSE OF ISSUE

In obtaining government concessions for the right to manufacture and sell matches in various countries, large amounts of securities are frequently acquired by Swedish Match Co. and International Match Corporation in return for advances made by them to the governments from which concessions are obtained. Thus, agreements have already been concluded involving the acquisition of $75,000,000 bonds of the Republic of France; $6,000,000 bonds of the Republic of Poland; $2,000,000 bonds of the Republic of Ecuador; $1,000,000 bonds of the Mortgage Bank of Ecuador (guaranteed by the Republic of Ecuador); $6,000,000 bonds of the Republic of Latvia; $22,000,000 bonds of the Kingdom of Serbs, Croats, and Slovenes (Jugoslavia); $36,000,000 Hungarian land reform mortgage bonds; $30,000,000 bonds of the Kingdom of Roumania; £380,690 bonds of the Kingdom of Roumania; £1,000,000 bonds of the Republic of Greece; and negotiations with other countries are pending.

These operations have in recent years become increasingly important and as the business of Swedish Match Co. and International Match Corporation is essentially industrial in character it has been deemed advisable in general to transfer to Kreuger & Toll Co. the handling of such securities. As the prices paid by Swedish Match Co. and International Match Corporation for bonds purchased in connection with match concessions are in some cases above the current market prices for similar securities and as Kreuger & Toll Co. in acquiring those bonds purchases them at the same prices, it has been agreed that the company should receive a participation, with Swedish Match Co. and International Match Corporation, in the profits of certain of the concessions it thus aids in financing.

Proceeds of this issue of $50,000,000 secured debentures, and of kr. 16,250,000 participating debentures being simultaneously offered to existing holders of participating debentures and ordinary shares, will be applied toward the acquisition from Swedish Match Co. and/or International Match Corporation of approximately $78,000,000 par value securities now owned by those companies, or to be presently acquired by them under pending negotiations.

SECURITY

The secured debentures will be the direct obligation of Kreuger & Toll Co., issued under a debenture agreement to Lee, Higginson Trust Co., Boston, as trustee, and will be secured by deposit with the trustee or with Skandinaviska Kreditaktiebolaget, Stockholm, as depositary, of securities of the following character (and cash as hereinafter provided):

(*a*) Bonds or notes issued or guaranteed by any sovereign state or any political subdivision thereof including any municipality, having authority to issue or guarantee bonds or notes and having a population in excess of 300,000.

(*b*) Bonds or notes issued or guaranteed by mortgage banking institutions or societies (in which the company may but need not have an interest) and secured by mortgages on agricultural or city property or entitled by special law to priority on such property.

(*c*) Shares in railway or other companies on which dividends at a minimum rate are guaranteed by any sovereign state.

There will now be pledged the following securities, of which approximately half are now owned and the balance is included in the securities to be acquired through the present financing:

	Par value
Kingdom of the Serbs, Croats and Slovenes, 6¼ per cent dollar bonds, due 1958	$7, 000, 000
Republic of Latvia 6 per cent dollar bonds, due 1964	6, 000, 000
Republic of Poland 7 per cent dollar bonds, due 1945	5, 100, 000
Republic of Ecuador 8 per cent dollar bonds, due 1953	1, 986, 900
Mortgage Bank of Ecuador 7 per cent dollar bonds, due 1949 (guaranteed by the Republic of Ecuador)	1, 000, 000
Republic of Greece 8½ per cent bonds, due 1954, £979,902, equivalent to	4, 768, 693
Kingdom of Roumania 4 per cent bonds, due 1968, £380,690, equivalent to	1, 852, 628
Republic of France 3 per cent and 4 per cent rentes, fcs. 344,000,000, equivalent to	13, 477, 576
Kingdom of Roumania 7 per cent dollar bonds, due 1959	2, 000, 000
Belgian National Railways Co. participating preferred stock (6 per cent dividend guaranteed by Belgian Government), belgas 16,000,000, equivalent to	2, 224, 640
Prussian Mortgage Bank 8 per cent bonds, due 1959, reichsmarks 12,000,000, equivalent to	2, 858, 400
Hungarian land reform mortgage 5½ per cent dollar bonds, due 1979	12, 000, 000
Total par value	60, 268, 837

Total par value of such securities is equivalent to not less than 120 per cent of the $50,000,000 par value secured debentures now to be issued, and the annual income from such securities (at rates of interest and guaranteed dividends currently payable thereon) is equivalent to not less than 120 per cent of the $2,500,000 annual requirement for interest on the secured debentures.

The company will agree that in the event the ratio of par value of pledged securities to par value of outstanding secured debentures and/or the ratio of annual income from pledged securities to the annual requirement for interest on outstanding secured debentures, are at any time less than 120 per cent it will deposit such additional securities of the required character as it may then own in order to restore said 120 per cent ratio. So long as no default is made in the payment of interest and/or sinking fund on the secured debentures, however, failure of the company to maintain the foregoing ratios shall not in itself constitute default under the debenture agreement.

The debenture agreement will provide for the issuance of additional secured debentures, in unlimited amount, provided that upon such issuance the above ratios obtain. The debenture agreement will permit withdrawal of pledged securities provided that such withdrawal does not impair the above ratios, and will permit substitution of securities of the required character for securities pledged provided the above ratios (or the ratios existing prior to such substitution if, prior to such substitution, the ratios were less than 120 per cent) are not impaired. These provisions are, however, subject to the condition that any part of the pledged securities may be withdrawn upon substitution of cash in an amount equivalent to that proportion of the principal amount of outstanding secured debentures which the par value of securities withdrawn bears to the total value of securities pledged at the time of such withdrawal.

Capitalization of Kreuger & Toll Co. to be outstanding upon completion of presen financing (issuance of $50,000,000 secured debentures and issuance of Kr. 16,250,000 additional participating debentures)

Five per cent secured sinking fund gold debentures, due March 1, 1959 (additional debentures issuable under provisions of debenture agreement), $50,000,000; participating debentures, authorized Kr. 130,000,000, outstanding Kr. 81,250,000 par value, equivalent to $21,775,000; reserved for exercise of warrants, Kr. 16,000,000. Ordinary shares, authorized and outstanding Kr. 65,000,000 par value, equivalent to $17,420,000.

Based on present quotations the Kr. 65,000,000 ($17,420,000) par value participating debentures and Kr. 65,000,000 ($17,420,000) par value ordinary shares now outstanding have a total market value of over $270,000,000.

ASSETS

Total net assets of Kreuger & Toll Co. and its wholly-owned subsidiaries (Swedish American Investment Corporation and N. V. Financieele Maatschappij Kreuger & Toll), based on the December 31, 1928, consolidated balance sheet adjusted to give effect to the present financing, amount to more than $212,000,000, or over 4 times this issue of $50,000,000 secured debentures. In addition to securities of approximately $78,000,000 par value to be acquired out of proceeds of present financing, such assets include the following investments (as carried, at cost, at December 31, 1928):

Industrial stocks:	
Swedish Match Co	$28, 922, 044
Grangesberg Co	17, 553, 800
Other industrial stocks	10, 280, 704
Real estate stocks:	
Hufvudstaden Real Estate Co. (Sweden)	6, 427, 980
Real-estate interests in other European countries	13, 591, 943
Bank stocks	15, 231, 961
Notes secured by real-estate mortgages	3, 474, 000
Foreign government bonds	21, 071, 744
Foreign railroad shares	2, 684, 065
Other stocks and bonds	2, 100, 038
	121, 338, 279

Swedish Match Co. and International Match Corporation, with their subsidiary companies, constitute the largest match manufacturing and distributing organization in the world with plants in over 35 different countries. Net profit of Swedish Match Co. for the past 25 years has averaged over 24 per cent per annum on capital stock from time to time outstanding and participating in dividends. The present dividend rate on its Kr. 270,000,000 ($72,360,000) capital stock is 15 per cent.

Grangesberg Co. with its affiliated companies is the largest producer of iron ore in Europe. Properties in Sweden, owned directly by Grangesberg Co. or controlled jointly with the Swedish Government, comprise the most extensive iron ore deposits commercially developed and used in the world to-day, with reserves estimated at over 2,000,000,000 metric tons. Ore produced is of a particularly high grade, with an iron content averaging over 60 per cent. Company also has substantial interests in iron mines in Northern Africa.

The real estate interests of Kreuger & Toll Co. in Germany include valuable business buildings and apartment house properties in Berlin. Hufvudstaden Real Estate Co. is the largest owner of city real estate in Sweden and has in recent years been paying dividends at the rate of 8 per cent per annum, with earnings at a rate substantially greater. Bank stocks owned consist of shareholdings in Skandinaviska Kreditaktiebolaget and Stockholm Mortgage Bank in Sweden, and in banks in France, Germany, Holland, Switzerland, and Poland.

EARNINGS

Consolidated net earnings of Kreuger & Toll Co. and its wholly owned subsidiaries (Swedish American Investment Corporation and N. V. Financieele Maatschappij Kreuger & Toll) for the three years ended December 31, 1928, before interest on debentures and after adjustment for intercompany items and dividends on Swedish American Investment Corporation participating preferred stock now retired, are as follows:

Year ended Dec. 31, 1926	$7, 981, 325
Year ended Dec. 31, 1927	12, 409, 606
Year ended Dec. 31, 1928	21, 025, 988

Such net earnings for the above three years average over three and three-fourths times the $3,588,750 annual requirement for interest on the $50,000,000 secured debentures and interest, at the fixed minimum rate of 5 per cent on the Kr. 81,250,000 participating debentures to be outstanding upon completion of this financing. For the year 1928 such net earnings were over five and three-fourths times this requirement.

The above earnings include no income from securities and participations to be acquired out of proceeds of the present financing or full annual income from proceeds of participating debentures issued in September, 1928. Additional income from these sources can conservatively be estimated at not less than $7,000,000 per annum.

Net earnings for 1928, as above, together with the $7,000,000 estimated minimum additional income, after deducting the annual requirement for interest on the $50,000,000 secured debentures, amounts to $25,525,988 or 65 per cent of the total Kr. 146,250,000 ($39,195,000) par value participating debentures and ordinary shares to be outstanding upon completion of this financing, and is equivalent to $3.48 per American certificate. No allowance has been made in these calculations for American certificates (representing participating debentures) which may be issued against exercise of warrants.

In no year since its organization has Kreuger & Toll Co. failed to earn and pay dividends on its ordinary shares from time to time outstanding and participating in dividends. Such dividends for the past 9 years have been at the present annual rate of 25 per cent.

DESCRIPTION OF SECURED DEBENTURES

The present issue of $50,000,000 secured sinking fund gold debentures will be dated March 1, 1929, will mature March 1, 1959, and will bear interest at the rate of 5 per cent per annum, payable semiannually March 1 and September 1. Principal and interest will be payable, free of any present or future Swedish taxes on debentures held by other than a resident of Sweden, in United States gold coin of the present standard of weight and fineness at the offices of Lee, Higginson & Co., fiscal agents, in New York, Boston, or Chicago, or at option of holder in sterling, at fixed rate of £205 per $1,000, at offices of Higginson & Co., London. The debentures will be in coupon form in denominations of $1,000 and $500; interchangeable. They will be callable, in whole or in part, at any time on 30 days' notice, at 105 and accrued interest.

SINKING FUND

There will be provided a sinking fund, payable semiannually (first payment September 1,1929), in cash or debentures at par, and calculated at a rate sufficient to retire the entire issue by maturity. Payments will be applied to the purchase of debentures up to the call price and, if not obtainable, to redemption of debentures by lot. The amount of this sinking fund will be adjusted on retirement of debentures other than through sinking fund, or on issuance of additional debentures, but will in any event provide for retirement of all debentures by maturity.

PURCHASE WARRANTS FOR AMERICAN CERTIFICATES REPRESENTING PARTICIPATING DEBENTURES

Each secured debenture of this issue will carry a nondetachable warrant for the purchase, at any time on or prior to December 31, 1930, or the redemption date of the secured debenture to which it shall be attached, whichever is earlier, of 16 or 8 American certificates (according as the secured debenture is of the denomination of $1,000 or $500) representing participating debentures of Kreuger & Toll Co., upon presentation of the secured debenture with warrant attached, at the offices of the fiscal agents, and upon payment of $45 per American certificate. Unexercised warrants will be void after December 31, 1930, or the redemption date of the secured debenture to which they shall be attached, whichever is earlier. The debenture agreement under which the secured debentures are to be issued will contain appropriate provisions with reference to the interests of the holders of warrants in case of issuance of additional participating debentures as a bonus or for a consideration in cash or property less than the equivalent of $45 per American certificate. The company will authorize and reserve kr. 16,000,000 participating debentures to be issued and deposited, under the deposit agreement

hereinafter referred to, against issuance of the corresponding amount of American certificates as warrants are exercised.

DESCRIPTION OF AMERICAN CERTIFICATES AND PARTICIPATING DEBENTURES

American certificates representing participating debentures are issued by Lee, Higginson Trust Co., Boston, as depositary under a deposit agreement dated September 1, 1928, in the proportion of 1 American certificate for each 20 kronor par value of debentures deposited. In accordance with the terms of the deposit agreement, at any time, participating debentures may be deposited against issuance of American certificates and American certificates may be exchanged for participating debentures represented thereby. The proportional part of any interest, principal, redemption price or other payments, applicable to deposited participating debentures, will be paid by the company in dollars at present parity of exchange (1 kr. = $0.268) and distributed to holders of American certificates by Lee, Higginson & Co., fiscal agent for American certificates.

The participating debentures bear interest, payable July 1 annually, at the rate of 5 per cent per annum, and are entitled to additional interest at the rate of 1 per cent for each 1 per cent by which the dividend paid or declared on the ordinary shares in any fiscal year exceeds 5 per cent. The present dividend rate on the ordinary shares is 25 per cent per annum.

As more fully set forth in the deposit agreement, to which reference is made, such participating debentures are entitled, in liquidation, to redemption before any distribution is made to shareholders, but only after all other debts of the company have been paid, and are redeemable at the option of the company at a price equivalent to the average quotation for the preceding three months, but not less than par and accrued interest at the rate of 5 per cent per annum. In the deposit agreement, however, the company has covenanted that participating debentures on deposit thereunder will not be called for redemption unless the average quotation for the three months preceding the month in which notice of redemption is given is equivalent to or exceeds five times par value of the participating debentures; nor will the amount payable in voluntary liquidation be less than five times par value.

APPLICATION TO LIST

American certificates (representing participating debentures) now outstanding are listed on the New York Stock Exchange and application will be made to list the secured sinking fund gold debentures.

Very truly yours,

AKTIEBOLAGET KREUGER & TOLL,
By IVAR KREUGER.

All conversions of foreign currencies to dollars used herein have been made at par of exchange.

American certificates representing Kreuger & Toll Co. (Aktiebolaget Kreuger & Toll), Stockholm, Sweden, participating debentures, bearing interest at the rate of 5 per cent per annum (payable annually) and entitled to additional interest at the rate of 1 per cent for each 1 per cent by which the dividend paid or declared on ordinary shares in any fiscal year exceeds 5 per cent. Present dividend rate on ordinary shares, 25 per cent per annum.

For a statement of the conditions under which, and the prices at which, participating debentures may be redeemed by the company and of their relative rank in liquidation, reference is made to the accompanying letter.

American certificates representing participating debentures are issued by Lee, Higginson Trust Co., Boston, depositary under a deposit agreement dated September 1, 1928, in the proportion of 1 American certificate for each 20 kronor par value of debentures deposited. At any time, and in accordance with the terms of the deposit agreement, participating debentures may be deposited against issuance of American certificates and American certificates may be exchanged for participating debentures represented thereby. The proportional part of any interest, principal, redemption price or other payments, applicable to deposited participating debentures, will be paid in dollars at present parity of exchange (1 Swedish krona = $0.268) and distributed to holders of American certificates by Lee, Higginson & Co., fiscal agent for American certificates. Interest at the rate of 25 per cent is equivalent to $1.34 per American certificate.

From the accompanying letter of Kreuger & Toll Co., signed by Ivar Kreuger, Esq., he further summarizes as follows: Capitalization of Kreuger & Toll Co. after giving effect to the present proposed increase in capital:

5 per cent secured sinking fund gold debentures, due Mar. 1, 1959 (additional debentures issuable under provisions of debenture agreement)	$49, 625, 000
Participating debentures (kr. 190,000,000 authorized; kr. 16,000,000 reserved for exercise of warrants attached to secured debentures), kr. 139,166,660,[1] equivalent to	37, 296, 665
Share capital, par value kr. 100 per share (kr. 76,000,000 authorized), kr. 76,000,000, equivalent to	20, 368, 000

Kreuger & Toll Co., organized in 1911 under Swedish laws, is an organizing, managing, and financing company. It is the policy of the company to make investments in diversified fields of activity, thus broadening the basis for its growth, and to maintain relations with leading enterprises, in Sweden and abroad, with a view to facilitating financing operations incident to large industrial and commercial transactions.

Directly or through its subsidiary holding companies, the company owns substantial stock interests in the following enterprises: Swedish Match Co., controlling International Match Corporation and, with its subsidiaries, comprising the largest match manufacturing and distributing organization in the world; Grangesberg Co., with its affiliated companies the largest producer of iron ore in Europe; real estate companies in Sweden, Germany and France; banks and banking companies in Sweden, France, Germany, Holland, Switzerland and Poland. The company's assets also include large holdings of foreign government bonds.

Kreuger & Toll Co. has recently contracted to acquire controlling stock interests in 10 companies engaged in the lumber and wood-pulp industries of Northern Sweden. All of the concerns have established businesses and together comprise the largest factor in their field in Sweden, their combined output of pulp representing approximately 30 per cent of the total for the country and their output of sawn lumber, about 15 per cent.

Present increase in capital: At this time it is proposed to offer to the holders of participating debentures and shares, rights to subscribe to Kr. 37,916,660 par value additional participating debentures and Kr. 10,833,400 par value additional shares, and also to sell privately, at a price substantially in excess of the subscription price, Kr. 20,000,000 par value additional participating debentures and Kr. 166,600 par value additional shares.

Funds thus realized will enable the company to acquire the above mentioned interests in the Swedish lumber and wood-pulp industries, and also to cooperate with Swedish Match Co. and International Match Corporation in certain transactions connected with the match industry.

Financial condition: Based on the December 31, 1928, consolidated balance sheet of the company and its wholly-owned subsidiary holding companies (Swedish American Investment Corporation and N. V. Financieele Maatschappij Kreuger & Toll) adjusted to give effect to acquisition of certain assets and issuance of certain securities since that date as well as the present proposed capital increase, total net assets, after deducting all liabilities having priority over the participating debentures and share capital, are more than $245,000,000.

Earnings: In no year since its organization has the company failed to earn and pay dividends on its share capital from time to time outstanding and participating in dividends. Dividends for the past 10 years have been at the present annual rate of 25 per cent.

Consolidated net earnings of the company and its wholly owned subsidiary holding companies for the three years ended December 31, 1928, before interest on participating debentures and after adjustment for intercompany items and dividends on a subsidiary company's preferred stock now retired, are as follows:

1926	$7, 981, 325
1927	12, 409, 606
1928	21, 025, 988

[1] In addition to the kr. 16,000,000 participating debentures reserved for exercise of warrants, up to a total of kr. 5,333,340 additional participating debentures may be issued in the event that any of said warrants shall have been exercised in time to participate in the rights to subscribe now being offered.

Such net earnings for 1928 are equivalent to 60 per cent on the total Kr.130,000,000 par value participating debentures and share capital outstanding at the end of that year, or the equivalent of $3.23 per American certificate. Preliminary figures for the first nine months of 1929 indicate that net earnings are at an annual rate of not less than 67 per cent on the total Kr.146,250,000 par value participating debentures and share capital outstanding at the end of that period, or the equivalent of approximately $3.60 per American certificate.

These earnings do not include any allowance for income from the assets now proposed to be acquired and the foregoing calculation, therefore, includes no adjustment for the additional securities to be issued under the terms of the present proposed increase in capital. The assets now to be acquired will afford new sources of income and will add substantially to the earnings of the company for the coming year.

The American certificates are listed on the New York Stock Exchange. Price at market. The proposed increase in capital and offering of rights are subject to the approval of an extraordinary general meeting of the shareholders of the company which has been called for November 1, 1929. All legal matters in connection with the issuance of the American certificates are subject to the approval of Messrs. Ropes, Gray, Boyden & Perkins and Messrs. Carter, Ledyard & Milburn.

Lee, Higginson & Co., Guaranty Co. of New York, Brown Bros. & Co., Clark, Dodge & Co., The National City Co., Dillon, Read & Co., The Union Trust Co. of Pittsburgh.

All conversions of foreign currencies to dollars used herein have been made at par of exchange. At par, 1 Swedish krone=$0.268. Statements contained in this circular, while not guaranteed, are based upon information and advice which we believe accurate and reliable.

October, 1929.

KREUGER & TOLL CO.,
Stockholm, Sweden, October 23, 1929.

Messrs. LEE, HIGGINSON & Co.,

DEAR SIRS: In connection with the proposed increase in capital of Kreuger & Toll Co., the offering to holders of participating debentures and shares of rights to subscribe to kroner 37,916,660 par value additional participating debentures and kroner 10,833,400 par value additional shares, and the private sale of kroner 20,000,000 par value additional participating debentures and krona 166,600 par value additional shares, all of which will be submitted to shareholders for approval on November 1, 1929, the following information is submitted:

BUSINESS

Kreuger & Toll Co., organized in 1911 under Swedish laws, is an organizing, managing, and financing company. It is the policy of the company to make investments in diversified fields of activity, thus broadening the basis for its growth, and to maintain relations with leading enterprises, in Sweden and abroad, with a view to facilitating financing operations incident to large industrial and commercial transactions. Through these connections the company enjoys the benefits of an organization of the highest type with representatives throughout the world.

Assets owned by Kreuger & Toll Co. directly or through its subsidiary holding companies, include substantial stock interests in the following enterprises:

Swedish Match Co., controlling International Match Corporation and, with its subsidiaries, comprising the largest match manufacturing and distributing organization in the world. Operations of these companies extend to over 35 different countries in Europe, North and South America and the Far East. The outstanding capital stock of Swedish Match Co. has a current market value of over $220,000,000. Kreuger & Toll Co. is the largest stockholder in the company.

Grangesberg Co., with its affiliated companies, the largest producer of iron-ore in Europe. Properties in Sweden, owned directly by the company or controlled jointly with the Swedish Government, comprise the most extensive iron-ore deposits commercially developed and used in the world to-day, with reserves estimated at over 2,000,000,000 tons. Grangesberg Co. also has substantial interests in iron-ore mines in Northern Africa.

Real estate companies in Sweden, Germany, and France, including Hufvudstaden Real Estate Co., the largest owner of city real estate in Sweden.

Banks and banking companies in Sweden, France, Germany, Holland, Switzerland and Poland including, in Sweden, the Skandinaviska Kreditaktiebolaget and the Stockholm Mortgage Guaranty Co.

The company's assets are broadly distributed and include, in addition to the stock interests mentioned above, large holdings of foreign government bonds. Many of the latter have been acquired as a result of the company's affiliations with Swedish Match Co. and International Match Corporation, which concerns, in obtaining government concessions for the right to manufacture or sell matches in various countries, frequently grant loans to the governments from which concessions are obtained. These operations have in recent years become increasingly important and, as the business of the match companies is essentially industrial in character, it has been deemed advisable, in general, to transfer to Kreuger & Toll Co. the handling of securities so acquired. During the past year, therefore, Kreuger & Toll Co. has purchased from the match companies, bonds acquired by them in connection with their obtaining concessions in France, Poland, Ecuador, Greece, Yugoslavia, Latvia, Rumania, and Hungary. Kreuger & Toll Co. will also receive a participation with the match companies in the profits of the last four named concessions.

AMALGAMATION OF SWEDISH LUMBER AND WOOD-PULP INTERESTS

The company has recently contracted to acquire controlling stock interests in the following concerns engaged in the lumber and wood-pulp industries of Northern Sweden: Bergvik and Ala Nya Co., Skönviks Co., Sunds Co., Svartvik Co., Nyhamns Cellulose Co., Torpshammars Co., Björknäs Saw Mill Co., Salsakers Saw Mill Co., Holmsunds Co. and Kramfors Co. The stocks thus acquired will be transferred to a holding company to be organized and wholly owned by Kreuger & Toll Co.

All of these concerns have established businesses and together comprise the largest factor in their field in Sweden, their combined output of pulp representing approximately 30 per cent of the total for the country and their output of sawn lumber, about 15 per cent. The position of Sweden as a producer of wood pulp has been steadily growing in importance and wood and wood products constitute the largest single item of the country's export trade.

Book value of the total assets included in the amalgamation, determined on a conservative basis, is approximately $85,000,000. Property owned by the companies exceeds 4,000,000 acres and comprises some of the most valuable timber land in the world. To the new holding company will also be transferred control of the Hammarsforsens Water Power Co. (previously held by Kreuger & Toll Co.), thus making available water power to an amount of over 250,000 horsepower of which 65,000 horsepower is developed and in use. Total annual productive capacity of the group will be 260,000 tons of sulphite pulp, 100,000 tons of sulphate pulp, 130,000 tons of mechanical pulp, 30,000 tons of paper and 140,000 standards of sawn timber. A new sulphate pulp mill of 100,000 tons capacity is being constructed, and will be in operation in 1931. As a result of the amalgamation, it is expected that increased profits will be derived from operating economies, particularly in working of the timber lands, and from the extension of the industrial activities of the several companies.

PRESENT INCREASE IN CAPITAL

At this time it is proposed to offer to the holders of participating debentures and shares, rights to subscribe to Kr. 37,916,660 par value additional participating debentures and Kr. 10,833,400 par value additional shares and also to sell privately, at a price substantially in excess of the subscription price, Kr. 20,000,000 par value additional participating debentures and Kr. 166,600 par value additional shares.

Funds thus realized will enable the company to acquire the above mentioned interests in the Swedish lumber and wood-pulp industries, and also to cooperate with Swedish Match Co. and International Match Corporation in certain transactions connected with the match industry.

After giving effect to the proposed increase, the outstanding capitalization of Kreuger & Toll Co. will be as follows:

Five per cent secured sinking fund gold debentures, due March 1, 1959 (additional debentures issuable under provisions of debenture agreement), $49,625,000.

Participating debentures, Kr. 139,166,660,[1] equivalent to $37,296,665 (Kr. 190,000,000 authorized; Kr. 16,000,000 reserved for exercise of warrants attached to secured debentures).

[1] In addition to the Kr. 16,000,000 participating debentures reserved for exercise of warrants, up to a total of Kr. 5,333,340 additional participating debentures may be issued in the event that any of said warrants shall have been exercised in time to participate in the rights to subscribe now being offered.

Share capital, par value Kr. 100 per share, Kr. 76,000,000, equivalent to $20,368,000 (Kr. 76,000,000 authorized, divided into Kr. 10,000,000 "A" shares and Kr. 66,000,000 "B" shares).

Both classes of shares are alike in all respects save as to voting power, the "A" shares having one vote per share and the "B" shares, one one-thousandth vote per share.

The participating debentures and shares are listed in Stockholm, London, Paris, Amsterdam, Basle, Berne, Geneva, Lausanne, and Zurich, and the participating debentures are also listed in Berlin, Hamburg, and Frankfort and, in the form of "American certificates," on the New York and Boston Stock Exchanges.

FINANCIAL CONDITION

The December 31, 1928, consolidated balance sheet of Kreuger & Toll Co. and its wholly owned subsidiary holding companies (Swedish American Investment Corporation, of Delaware, United States of America, and N. V. Financieele Maatschappij Kreuger & Toll, of Holland) adjusted to give effect to the acquisition of certain assets since that date and the issuance, in March, 1929, of $50,000,000 5 per cent secured sinking fund gold debentures and Kr. 16,250,000 par value participating debentures, is as follows:

ASSETS

Investments:			
Industrial stocks—			
Swedish Match Co	$28, 922, 044		
Grangesberg Co	17, 553, 800		
Other industrial stocks	10, 280, 704		
		$56, 756, 548	
Real estate stocks—			
Hufvudstaden Real Estate Co. (Sweden)	6, 427, 980		
In other European countries	13, 591, 943		
		20, 019, 923	
Bank stocks		15, 231, 961	
Foreign Government bonds		83, 447, 414	
Other stocks and bonds		18, 594, 435	
Notes secured by real estate mortgages		3, 474, 000	
			$197, 524, 281
Accounts receivable			20, 703, 584
Cash and banking account			12, 058, 930
Special deposit for retirement of preferred stock			94, 007
Furniture and fittings			1
			230, 380, 803

LIABILITIES

Sundry creditors (including accrued interest and reserve for United States income tax)	17, 495, 423	
Preferred stock of subsidiary (called for redemption)	41, 000	
		17, 536, 423
5 per cent secured sinking fund gold debentures		50, 000, 000
Participating debentures (Kr. 81,250,000 par value)	21, 775, 000	
Share capital (Kr. 65,000,000 par value)	17, 420, 000	
Reserve funds	95, 390, 194	
Profit and loss surplus	28, 259, 186	
		162, 844, 380
		230, 380, 803

Based on the above balance sheet adjusted to give effect to the present proposed increase in capital, total net assets, after deducting all liabilities having priority over the participating debentures and share capital, amount to more than $245,000,000.

EARNINGS

In no year since its organization has Kreuger & Toll Co. failed to earn and pay dividends on its share capital from time to time outstanding and participating in dividends. Such dividends for the past 10 years have been at the present annual rate of 25 per cent.

Consolidated net earnings of Kreuger & Toll Co. and its wholly owned subsidiary holding companies (Swedish-American Investment Corporation and N. V. Financieele Maatschappij Kreuger & Toll) for the three years ended December 31, 1928, before interest on participating debentures and after adjustment for intercompany items and dividends on Swedish-American Investment Corporation preferred stock now retired, are as follows:

Year ended Dec. 31, 1926	$7, 981, 325
Year ended Dec. 31, 1927	12, 409, 606
Year ended Dec. 31, 1928	21, 025, 988

Such net earnings for 1928 are equivalent to 60 per cent on the total Kr. 130,000,000 par value participating debentures and share capital outstanding at the end of that year, or the equivalent of $3.23 per American certificate. Preliminary figures for the first nine months of 1929 indicate that net earnings are at an annual rate of not less than 67 per cent on the total Kr. 146,250,000 par value participating debentures and share capital outstanding at the end of that period, or the equivalent of approximately $3.60 per American certificate.

These earnings do not include any allowance for income from the assets now proposed to be acquired and the foregoing calculation, therefore, includes no adjustment for the additional securities to be issued under terms of the present proposed increase in capital. The assets now to be acquired will afford new sources of income and will add substantially to the earnings of the company for the coming year.

DESCRIPTION OF PARTICIPATING DEBENTURES AND AMERICAN CERTIFICATES

The participating debentures of Kreuger & Toll Co. constitute an authorized issue of kr. 190,000,000 in coupon form. Provision has been made for the payment of principal and interest, at the option of the holder, in Stockholm in Kronor or in London, Amsterdam, Brussels, Paris, Germany or Switzerland in the respective currency at bankers' buying rates for sight drafts on Stockholm on date of presentation of debenture or coupon.

The participating debentures bear interest at the rate of 5 per cent per annum and if the dividend paid or declared on the ordinary shares of the company in respect of any fiscal year exceeds 5 per cent, are entitled in respect of such fiscal year to additional interest at the rate of 1 per cent for each 1 per cent so paid or declared on the ordinary shares in excess of 5 per cent. Interest is payable annually on July 1 in respect of the year ended the preceding December 31 and the amount of the payment is determined by the share dividend fixed at the annual meeting of the shareholders usually held in May. At the present dividend rate of 25 per cent on the shares, the participating debentures are entitled to receive interest at the same rate. The participating debentures included in the increase now proposed will be entitled to interest in respect of the calendar year 1929 and subsequent years.

American certificates representing participating debentures are issued by Lee, Higginson Trust Co., Boston, as depositary under a deposit agreement dated September 1, 1928, in the proportion of one American certificate for each 20 kronor par value of debentures deposited. At any time, and in accordance with the terms of the deposit agreement, participating debentures may be deposited against issuance of American certificates and American certificates may be exchanged for participating debentures represented thereby. The proportional part of any interest, principal, redemption price or other payments, applicable to deposited participating debentures, will be paid by the company in dollars at present parity of exchange (1 Swedish krona=$0.268) and distributed to holders of American certificates by Lee, Higginson & Co., fiscal agent for American certificates. Interest at the rate of 25 per cent is equivalent to $1.34 per American certificate.

As more fully set forth in the deposit agreement, to which reference is made, the participating debentures are (1) entitled in liquidation to redemption before any distribution of assets is made to shareholders but only after all other debts of the company have been paid, and are (2) redeemable at the option of the company on any interest date, on three months' notice—in each case at a price equivalent to the average quotation for the three months preceding that in which

the company is placed in liquidation or in which notice of redemption is given, but not less than par and accrued interest at the rate of 5 per cent per annum. In the deposit agreement, however, the company has covenanted that participating debentures on deposit thereunder will not be called for redemption unless such average quotation is equivalent to at least five times par value of the participating debentures; nor will the amount payable in voluntary liquidation be less than five times par value. The debentures are redeemable, at the option of the holder, on July 1, 2003, or on any interest date thereafter, on six months' notice, at par and accrued interest at the rate of 5 per cent per annum.

Very truly yours,

AKTIEBOLAGET KREUGER & TOLL.
By IVAR KREUGER.

NOTE.—All conversions of foreign currencies to dollars used herein have been made at par of exchange. At par, 1 Swedish Krone=$2.68.

Mr. MARRINAN. Mr. Durant, when did you first suffer some suspicions regarding the business integrity of Mr. Kreuger?

Mr. DURANT. Shortly after his suicide.

Mr. MARRINAN. After his suicide?

Mr. DURANT. Yes.

Mr. MARRINAN. This is not a question that properly bears on legislation. It might satisfy inquiry which, if Senators get it as frequently as I have had it put to me, will perhaps render a small public service. The colossal deceptions practiced by Kreuger lead many people to think he is still alive. Is there any possible basis for such a thought?

Mr. DURANT. Not in my judgment.

Mr. MARRINAN. Mr. Durant, who sent the confidential cable received by Mr. Murnane, one of your partners, on the morning of March 12, 1932, at your New York offices advising of Mr. Kreuger's death?

Mr. DURANT. I did.

Mr. MARRINAN. Why was this information withheld from the American public until after the close of the stock market on that date?

Mr. DURANT. I said in the telegram, which I believe is in the record there, that the matter had not been passed by the police yet, and no announcement should be made by anybody until the police in Paris had made the announcement. Now, what they did I do not know.

The CHAIRMAN. In other words he was not officially dead.

Mr. MARRINAN. Will you submit a copy of your cablegram to Mr. Murnane?

Mr. DURANT. Certainly.

Mr. MARRINAN. Now, there has been written the statement that the responsibility for that suppression really lay with the bankers, not only Lee, Higginson & Co., but other bankers in the international group present in Paris at the time of the suicide, who exerted the very greatest pressure upon the French police authorities to suppress the news until you gentlemen could get together and see what could be done to stabilize that situation. Now, what is the fact?

Mr. DURANT. Absolutely nothing in it so far as I have ever heard or know.

Mr. MARRINAN. Why did the French authorities suppress the information?

Mr. DURANT. I do not know what they did or how they did it. When I heard the information the police were just going. A friend had seen Mr. Kreuger and notified the police and notified me. I did

not think it was my duty—I did not think I should release that information to the public until the police, who had it in charge, had given it out. Now I am sure there was no pressure brought to bear. I never had any relation with the police myself.

Mr. MARRINAN. Well, certainly the firm of Lee, Higginson & Co., of New York, need not have been responsive to the judgment of others on what should be done about this fact known to them. In other words, Lee, Higginson & Co. can not take the position that it withheld or suppressed this news because of some judgment reached by the police force of Paris. In other words, you had the news in New York on the morning of March 12 at—shall we say a few moments after 10—I understand it was there before—but it was not called to Mr. Mrunane's attention until a few moments after 10, the trading day had a considerable time yet to run, and yet it was withheld until after the close of the stock market? Isn't that true, sir?

Mr. DURANT. Well, I was in Paris. I sent the telegram about half past 1, or something of that sort. And I did not know until I got back what was done.

Mr. MARRINAN. Will you answer the question? Do you think Lee, Higginson & Co. should have been responsive in any way to the French Government in withholding the news?

Mr. DURANT. Well, I do not know what they should have done with the French Government. It was not a question of the Government. I had sent them this information and said that in my judgment it should not be made public until the authorities had made the announcement.

Senator COSTIGAN. What was the New York time when you sent the telegram?

Mr. DURANT. My best recollection is that it was about half past 1 or 2 o'clock Paris, which would make it about——

The CHAIRMAN. A. m. or p. m.?

Mr. DURANT. P. m., Paris time. Would be five hours difference. About half past 8 or 9, I think.

The CHAIRMAN. In the morning.

Senator COSTIGAN. In the morning.

The CHAIRMAN. At New York.

Mr. DURANT. I think so. But I am not clear, Senator, just when I sent it.

Senator COSTIGAN. Probably prior to the opening of the New York Stock Exchange on that day.

Mr. DURANT. I think it was sent prior, but I don't think it was opened until later.

Senator COSTIGAN. May I ask you whether any advantage of this knowledge of the death of Mr. Kreuger was taken in the way of sales of any of the Kreuger securities by your associates before the news of Kreuger's death had become public?

Mr. DURANT. I am glad you asked that because I can say that no advantage was taken of it whatsoever.

Senator REYNOLDS. Mr. Chairman, I should like to ask the witness a question.

The CHAIRMAN. Senator Reynolds.

Senator REYNOLDS. What was the official hour of the death of Kreuger?

Mr. DURANT. That, sir; I do not know.

Senator REYNOLDS. You were in Paris at the time, weren't you?
Mr. DURANT. Yes, sir.
Senator REYNOLDS. How far were you living from him?
Mr. DURANT. Oh, a few miles. Just 2 or 3 miles.
Senator REYNOLDS. You knew him quite well?
Mr. DURANT. Yes.
Senator REYNOLDS. He was a friend of yours?
Mr. DURANT. Yes.
Senator REYNOLDS. You were a director in his company?
Mr. DURANT. Yes.
Senator REYNOLDS. When were you notified as to his death?
Mr. DURANT. I think it was about half past 1, that is my best recollection, or 1 o'clock.
Senator REYNOLDS. Half past 1 on what date?
Mr. DURANT. March 12, Saturday.
Senator REYNOLDS. Did they tell you at that time what time he had committed suicide?
Mr. DURANT. No.
Senator REYNOLDS. Did you not inquire?
Mr. DURANT. Well, we had been waiting for Mr. Kreuger, and he did not come to the meeting.
Senator REYNOLDS. Did you afterwards learn what time he committed suicide?
Mr. DURANT. No; I did not learn what time he committed suicide. I did not know the exact hour.
Senator REYNOLDS. Do you mean to tell me, Mr. Durant, as closely as you were associated with Mr. Kreuger as director interested in all his financial affairs, and knowing him personally as you did, that you did not even make inquiry as to the time that he committed suicide?
Mr. DURANT. I never did. The exact minute. I knew it was——
Senator REYNOLDS. No, the hour.
Mr. DURANT. The two hours that we were waiting for him.
Senator REYNOLDS. What hour of the day did he commit suicide?
Mr. DURANT. Just about 11 o'clock.
Senator REYNOLDS. Just about 11 o'clock?
Mr. DURANT. Yes.
Senator REYNOLDS. When did the police pass upon this matter officially?
Mr. DURANT. I haven't any idea.
Senator REYNOLDS. Haven't you just told the committee that you sent a wire at half past 1 in the day?
Mr. DURANT. I said the minute I heard about it. It had not been released by the police.
Senator REYNOLDS. What time did you hear about it?
Mr. DURANT. My best recollection it was around 1 o'clock or half past 1.
Senator REYNOLDS. One o'clock?
Mr. DURANT. Yes.
The CHAIRMAN. In the morning?
Senator REYNOLDS. In the morning?
Mr. DURANT. No; in the daytime.
Senator REYNOLDS. In the daytime?
Mr. DURANT. Yes.
Senator REYNOLDS. One o'clock noon, so to speak?

Mr. DURANT. Yes.

Senator REYNOLDS. All right. Now, when you heard that, how long after that was it that you sent this wire to America?

Mr. DURANT. It was very soon after that.

Senator REYNOLDS. How soon?

Mr. DURANT. I do not recall.

Senator REYNOLDS. Well, you have some idea, haven't you?

Mr. DURANT. Well, it was very soon. At the first opportunity I went out and sent a cablegram.

Senator REYNOLDS. You did not send a cablegram until the French police had passed upon it officially?

Mr. DURANT. No, sir.

Senator REYNOLDS. Who did you send that wire to?

Mr. DURANT. I immediately, as soon as I could get out, sent a cablegram and I notified my partner of this confidential news that I had heard.

Senator REYNOLDS. Where were your partners?

Mr. DURANT. In New York.

Senator REYNOLDS. In New York. Then you did communicate the information to the members of your firm in New York?

Mr. DURANT. Yes.

Senator REYNOLDS. What did you say in your cablegram?

Mr. DURANT. I said that he had died suddenly.

Senator REYNOLDS. What time? Did you say that?

Mr. DURANT. I did not know.

Senator REYNOLDS. You did that before the police had passed upon it?

Mr. DURANT. Yes.

Senator REYNOLDS. That is true, isn't it?

Mr. DURANT. Yes.

Senator REYNOLDS. Then the members of your firm knew all about the suicide of Kreuger before anybody else knew about it?

Mr. DURANT. No, sir; I beg your pardon. I had not mentioned suicide in my cablegram.

Senator REYNOLDS. But you knew that he had died?

Mr. DURANT. I said that he died suddenly. They knew that.

Senator REYNOLDS. Didn't you tell them that he had killed himself?

Mr. DURANT. No.

Senator REYNOLDS. You told them that he had died?

Mr. DURANT. Yes.

Senator REYNOLDS. You knew that that was going to affect the securities in this country?

Mr. DURANT. I thought so.

Senator REYNOLDS. You knew as a business man, and, if I may employ the word, promoter, that it was going to affect materially those who had invested their money in these investments, didn't you?

Mr. DURANT. I thought so.

Senator REYNOLDS. Well, didn't you deem it then your duty to advise the world as to the death of Kreuger when you knew that he had committed suicide, and when you knew that thousands of investors had millions of dollars invested in those securities?

Mr. DURANT. I heard that he had committed suicide. I did not know it. I was not there.

Senator REYNOLDS. Well, you knew it?

Mr. DURANT. The matter was in the hands of the police.

Senator REYNOLDS. The matter was in the hands of the police, but you did advise the members of your firm and gave them that confidential information, that is true, is it not?

Mr. DURANT. That Kreuger had died suddenly.

Senator REYNOLDS. And you knew that that was going to affect thousands and thousands of investors in this country?

Mr. DURANT. Yes.

Senator REYNOLDS. And thereby you neglected to advise the American investment public who were interested in and who had invested in the securities of an organization in which you were a director, that is true, is it not?

Mr. DURANT. I do not think that I should give that information to the——

Senator REYNOLDS. Why, as a director of that company you were interested in those that were investing their money in the securities of your organization, were you not?

Mr. DURANT. Yes; I was.

Senator REYNOLDS. Did you not deem it your duty, your moral obligation to the investors in your various and sundry organizations, to advise them to the effect that the man who was heading this mammoth institution had committed suicide? Did you not deem it your moral duty?

Mr. DURANT. I deemed it my duty to let the proper officials make the statement.

Senator REYNOLDS. Why, you were a director in the company, were you not?

Mr. DURANT. Yes.

Senator REYNOLDS. Well, who could have been a more proper official than yourself?

Mr. DURANT. I think the officials in Paris were the proper ones.

Senator REYNOLDS. What officials in Paris? The police officials?

Mr. DURANT. Yes.

Senator REYNOLDS. What interest did they have in the American public?

Mr. DURANT. Well, they had an interest in any violent death in Paris.

Senator REYNOLDS. Well, but did the American people have any interest in it?

Mr. DURANT. Why, Senator, I did not have the details. I had not seen the case.

Senator REYNOLDS. I know, but you were right there. You were a director of his company. Why did you not make inquiry about it?

Mr. DURANT. Well, I did not deem it my duty to make the announcement to the world.

Senator REYNOLDS. All right. You did convey confidential information to the members of your firm to the effect that this man was dead, did you not?

Mr. DURANT. Yes.

Senator REYNOLDS. All right. And you later sent a cablegram, did you not?

Mr. DURANT. Later?

Senator REYNOLDS. Yes; after you had conveyed that confidentially to the members of your firm? Did you not?

Mr. DURANT. I do not recall.

Senator REYNOLDS. Well, I will ask you if you did?

Mr. DURANT. On this particular subject?

Senator REYNOLDS. Yes.

Mr. DURANT. I think that later on they sent a telegram saying there was a rumor that he had committed suicide.

Senator REYNOLDS. Who sent it?

Mr. DURANT. I think my partners.

Senator REYNOLDS. Your partners. I will ask you if you were not right there with them when it was sent?

Mr. DURANT. I was in Paris.

Senator REYNOLDS. Well, you were with them when they sent the cablegram, were you not?

Mr. DURANT. They were in New York, sir.

Senator REYNOLDS. Well, who was with you there in Paris?

Mr. DURANT. One of my partners.

Senator REYNOLDS. One of your partners. Who sent the cablegram, you or he?

Mr. DURANT. I sent the first cablegram.

Senator REYNOLDS. You sent the first cablegram. Who sent the second cablegram?

Mr. DURANT. I do not at the present time recall. I will be glad to refresh my memory.

Senator REYNOLDS. I will ask you, Mr. Durant, if you were not right there at the time it was sent and saw it written? Or do you know it was sent?

Mr. DURANT. I do not know the cablegram that the Senator is referring to.

Senator REYNOLDS. I will ask you if you did not just state that a second cablegram was sent? Now which is correct? Did he sent it or didn't he?

Mr. DURANT. I sent a telegram saying Mr. Kreuger died suddenly.

Senator REYNOLDS. You told me about that. I am talking about the second cablegram.

Mr. DURANT. I have no present recollection of a second cablegram.

Senator REYNOLDS. Didn't you just a moment ago state that a second cablegram was sent? Did you not just state that a moment ago? Was that right or was it wrong?

Mr. DURANT. I have some recollection that a second——

Senator REYNOLDS. You are not answering my question, Mr. Durant. Answer the question, please.

Mr. DURANT (continuing). That there might have been a second cablegram.

Senator REYNOLDS. Answer my question, please. My question is this: Did you not state just a moment ago that you sent a second cablegram? Now is that right or wrong?

Mr. DURANT. I said I had some recollection that there might have been some other cablegram sent. I will be delighted to look it up.

Senator REYNOLDS. Just a minute. If a second cablegram was not sent, how do you have any recollection that one was sent? Can you answer that?

Mr. DURANT. I will be glad to look up the cables.

Senator REYNOLDS. All right. Now, that you say that you have a recollection that a second cablegram was sent, what were the contents of that second cablegram?

Mr. DURANT. I do not recall, except that I——

Senator REYNOLDS. Well, then, you do know that a second cablegram was sent, do you not?

Mr. DURANT. Sir, I am trying to give you my best recollection of this, Senator.

Senator REYNOLDS. I am trying to get you to answer me. I am asking you about this second cablegram. What this committee wants to know on this particular point is this: Why you should have advised the members of your firm, giving them confidential information at the time that you gave them that confidential information? I will ask you, Mr. Durant, if you did not know then that they were going to hold that in confidence, and that they were not going to let the American investing public know that Mr. Kreuger had taken his own life? Isn't that true?

Mr. DURANT. I had no idea what they were going to do with it.

Senator REYNOLDS. Why, do you mean to tell this committee that when you wired your firm confidentially, that you, an intelligent business man, had any idea that they would convey all that information to the American public?

Mr. DURANT. I hoped they would not.

Senator REYNOLDS. You hoped they would not? Why did you hope that they would not convey that confidential information to the American investing public?

Mr. DURANT. Because I did not think it was my duty to give out the information.

Senator REYNOLDS. You did not think it was your duty, and you were a member of that institution? Why, you do not mean to tell us that, do you, Mr. Durant? Did you have any interest in those who had invested their millions in these securities?

Mr. DURANT. Certainly.

Senator REYNOLDS. You had, didn't you? Then why didn't you deem it your duty to advise the American public?

Mr. DURANT. Because I had not the exact information. I had not seen the——

Senator REYNOLDS. Why, you were right there?

Mr. DURANT. I was not where he killed himself.

Senator REYNOLDS. You were a director of the company. Was there any man in the Kreuger organization that had a greater interest in that institution than yourself? Was there any such man? You were a director, were you not?

Mr. DURANT. I was a director.

Senator REYNOLDS. Well, was there any man in the organization that had a greater interest in it than you?

Mr. DURANT. In which organization?

Senator REYNOLDS. In the Kreuger organization.

Mr. DURANT. Why, there were many men in the Kreuger organization.

Senator REYNOLDS. You were a director. Were there any other directors there beside you?

Mr. DURANT. Yes, sir.

Senator REYNOLDS. Did any of those other directors send cablegrams advising of the death of Kreuger?

Mr. DURANT. I do not know.

Senator REYNOLDS. Did you discuss it with them?

Mr. DURANT. I do not know.

Senator REYNOLDS. What were the contents of that second cablegram?

Mr. DURANT. I will look it up.

Senator REYNOLDS. Who was it sent to?

Mr. DURANT. I will give you my best recollection, Senator.

Senator REYNOLDS. Yes, sir.

Mr. DURANT. I am not at all sure that there was a second cablegram. I have a recollection that later on that day my partners said there was a rumor that Mr. Kreuger had committed suicide, and was that correct? My first telegram, as I did not have all the details—I knew that he had been——

Senator REYNOLDS. Just a moment. Did you send that telegram to your firm on a rumor?

Mr. DURANT. I did not know whether he had committed suicide or not. I was not sure.

Senator REYNOLDS. No; I am asking you this: Did you send that cablegram to America on a mere rumor?

Mr. DURANT. Not at all.

Senator REYNOLDS. Not at all. Then you knew that he was dead?

Mr. DURANT. I had been told that he was dead by one of his friends that saw him.

Senator REYNOLDS. Did you see him after he was dead?

Mr. DURANT. No, sir.

Senator REYNOLDS. You do not know whether he is dead or not, then, do you?

Mr. DURANT. Not of my own personal knowledge.

Senator REYNOLDS. What do you think about it? Is he or isn't he?

Mr. DURANT. I have testified this morning——

Senator REYNOLDS. I am asking you again.

Mr. DURANT. I believe he is dead.

Senator REYNOLDS. Why do you believe he is dead?

Mr. DURANT. Because some——

Senator REYNOLDS. Because what?

Mr. DURANT. Because some associates of mine, people I know, saw him.

Senator REYNOLDS. Now you knew him intimately, did you not?

Mr. DURANT. Yes.

Senator REYNOLDS. You went over on the boat with him, did you not?

Mr. DURANT. Yes.

Senator REYNOLDS. You were with him every day and every evening, were you not?

Mr. DURANT. I was with him a good deal.

Senator REYNOLDS. Associated with him frequently while he was in Paris?

Mr. DURANT. I did not see him from the time we got to Paris until he died.

Senator REYNOLDS. Do you mean to tell this committee that after that man was supposed to have committed suicide that you did not go to view his remains?

Mr. DURANT. That is correct.

Senator REYNOLDS. Why didn't you?

Mr. DURANT. Because I do not care to do that. I do not like to see my friends after they are dead.

Senator REYNOLDS. As you stated, you do not know whether he is dead or not?

Mr. DURANT. I said I believed he is.

Senator REYNOLDS. You believe he is?

The CHAIRMAN. Is that all, Senator?

Senator REYNOLDS. That is all.

The CHAIRMAN. You may proceed, Mr. Marrinan.

Mr. MARRINAN. Mr. Durant, you have answered some questions very satisfactorily that I had intended to ask, and I am going by those. Did your house execute buying or selling orders for clients, not on your own account or on the accounts of any of your partners, but for clients during that morning of March 12?

Mr. DURANT. I, of course, was not here. I have been advised by my firm that when that cablegram was opened that all orders to buy for clients were canceled that stood on the books. I do not think the telegram was opened until after the market was opened.

Mr. MARRINAN. The time is getting short, and I wish to hurry over some of this. But I would like to paint the picture, as I understand it and just ask you whether I am accurate in my statement of it. On that morning there was very considerable—I say considerable by comparison with the usual market movements—there was very considerable liquidation from Paris. There were about 165,400 shares of Kreuger & Toll stock, the American certificates, which are tied up in this picture by reason of the warrants, sold on the exchange that morning. Mr. Gray's investigation disclosed that 148,000 of that total originated in Paris. Can you give us any assistance as to whether that statement is substantially correct?

Mr. DURANT. I have no information whatsoever of it.

Mr. MARRINAN. Mr. Chairman, may I insert in the record at this time a report made by an accountant of the firm of George K. Watson to Mr. William A. Gray——

The CHAIRMAN. The counsel for this committee.

Mr. MARRINAN. The counsel for this committee—of selling of Kreuger & Toll on March 11 and 12, 1932. There is this very interesting paragraph in this report which I would like to have you comment upon if you care to do so:

It may be noted that a large volume of selling of Kreuger & Toll had been done for foreign accounts for some time preceding the date of Mr. Kreuger's death.

Have you any knowledge of that, Mr. Durant?

Mr. DURANT. No, sir; I have not.

Mr. MARRINAN. I would like to insert this in the record, if the committee approves.

The CHAIRMAN. If there is no objection it will be printed in the record.

(The memorandum from George K. Watson & Co. to William A. Gray is here printed in the record in full, as follows:)

GEORGE K. WATSON & CO., OFFICE MEMORANDUM

Date: June 2, 1932.
From: Frederic E. Benton.
To: William A. Gray.
Subject matter: Selling of Kreuger & Toll, March 11 and 12, 1932.

Since the date of Mr. Kreuger's death, March 12, was a Saturday, the sales of that day are combined on the clearing-house records with those of Friday,

March 11. During the two days 354,700 shares of Kreuger & Toll were cleared; this amount including borrowings of one house by another.

I visited approximately 20 of the houses whose volume of shares cleared on that date were the largest and found that the majority of the selling was for the account of foreign houses. Following is a list of the approximate number of shares sold for various accounts:

Societe Financiere Suisse et Scandinave, Stockholm, approximately through Hirsch-Lilienthal, Wertheim & Co., H. Hentz & Co., 60,000 shares.

S. Japhet & Co. (Ltd.), London. This was a joint account with Wagner Stott, a stock-exchange house, and sold 16,000 shares.

A. G. Marcator (Ltd.), Switzerland, through H. Hentz & Co., 15,500 shares.

J. Koch, Amsterdam, through Wertheim & Co., White, Weld & Co., 6,500 shares.

Kalker Polack, Amsterdam, through Herzfeld & Sterm, 20,000 shares.

Jacobson Ponsbach, Stockholm, through Herzfeld & Sterm, 10,000 shares.

London Arbitrage Account, through Hirsch-Lilienthal. This was a joint account which sold approximately 20,000 shares.

In several instances large volumes of stock were sold for a short position, which were later delivered into the accounts of these customers by Lee, Higginson & Co.

I was informed that while Lee-Higginson did not sell on that day, they also did not execute buying orders which had been received by them from their customers.

It may be noted that a large volume of selling of Kreuger & Toll had been done for foreign accounts for some time preceding the date of Mr. Kreuger's death.

If this matter is gone into further, it might be of interest to find out why the Societe Financiere particularly knew of the condition of the Kreuger & Toll companies, at this time, while Lee-Higginson, who handled such a large volume for the American houses, was in ignorance of it.

Mr. MARRINAN. I have here a letter from your distinguished counsel, Mr. Durant. It is signed by Judge Joseph M. Proskauer, under date of June 2, 1932, which was offered to Mr. Gray in answer to certain queries, which he raised. It shows, generally speaking, the number of transfers of American certificates representing participating debentures of Kreuger & Toll Company issued during the month of March, 1932, and delivered to various people where conversions were being made abroad from the participating debentures held abroad into American certificates. I find through totaling some of the figures submitted that those transactions amounted during that month to 157,910 shares. Is it reasonable to state that that is evidence of a liquidation movement from Europe—an unloading of these securities upon the American market?

Mr. DURANT. It would not necessarily follow, Mr. Marrinan.

Mr. MARRINAN. It might be, though?

Mr. DURANT. It might be.

Mr. MARRINAN. Yes, sir. Do you know anything about a situation wherein a member firm of the New York Stock Exchange with 400,000 shares of Kreuger & Toll stock in its possession, and in a very awkward situation, proceeded similarly to dispose of some 400,000 shares of Kreuger & Toll stock?

Mr. DURANT. No, sir. It means nothing to me.

Mr. MARRINAN. In another table furnished by Judge Proskauer, as counsel, is given all deliveries of American certificates on March 14 made to complete sales as of March 11 and 12. This shows that Lee, Higginson & Co. sold in behalf of customers some 3,270 American certificates on those two days. No record was given of purchases. It is my understanding that you say now that in so far as March 12 was concerned your firm executed no buying orders for its clients?

Mr. DURANT. After they opened the telegram. I believe I learned in the last few days that the telegram was not received by a partner and opened until after the market had opened, but the minute they got that information they canceled all buying orders on behalf of clients.

Mr. MARRINAN. Then it becomes very necessary for us to know right down to the split second when that telegram was opened. Can you give us that information?

Mr. DURANT. I can not, but I will try to get it for you.

Mr. MARRINAN. Will you furnish that information?

Mr. DURANT. I will be glad to.

Mr. MARRINAN. All right, sir. I would like to submit for the record at this point, if the committee please, the letter from Judge Proskauer to which I referred, and the accompanying data, and ask that it be printed in the record.

The CHAIRMAN. If there is no objection it may be so ordered.

(The letter from Joseph M. Proskauer to William A. Gray and the accompanying data is here printed in the record in full, as follows:)

NEW YORK, *June 2, 1932.*

WILLIAM A. GRAY, Esq.,
New York City.

DEAR MR. GRAY: Following our conversation yesterday, I instructed the proper clerk at Lee, Higginson & Co. to make up a complete statement of all Kreuger & Toll certificates delivered out on March 14, 1932. I send you herewith two schedules, one showing the certificates delivered out by Lee, Higginson & Co. as transfer agents, and the other showing certificates delivered out to complete sales made for account of customers.

As neither of these schedules checked up with the information that large deliveries had been made to Wertheim & Co., Hirsch, Lillienthal & Co., and Hentz & Co., I requested a complete statement of all deliveries to those three firms made during the entire month of March, and I send you three schedules covering such deliveries.

I confirm on behalf of my clients that they made no deliveries for their own account on the 14th of March.

If for any reason the information which I now send you and which was hurriedly put together does not check with your own records, I trust you will not hesitate to put your investigator in touch with us, as we wish to be sure that all information on this subject is placed freely at your disposal.

Yours faithfully,

JOSEPH M. PROSKAUER.

American certificates, representing deposited participating debentures of Kreuger & Toll Co. issued during month of March, 1932

Date of issue	Amount	To whom delivered	Date of delivery	For account of—
Mar. 4, 1932	800	Wertheim & Co	Mar. 7, 1932	BYZE (Societe Financiere Suisse et Scandinave, Stockholm).
Mar. 7, 1932	500	do	Mar. 8, 1932	Do.
Mar. 8, 1932	400	do	Mar. 9, 1932	Hollandsche Koopmansbank, Amsterdam.
Mar. 14, 1932	300	do	Mar. 15, 1932	Wertheim & Co., Amsterdam.
Mar. 15, 1932	12,400	do	Mar. 16, 1932	BYZE (Societe Financiere Suisse et Scandinave, Stockholm).
Mar. 16, 1932	7,000	do	Mar. 17, 1932	Do.
Mar. 17, 1932	8,700	do	Mar. 18, 1932	Do.
Mar. 18, 1932	3,000	do	Mar. 21, 1932	Do.
Mar. 21, 1932	500	do	Mar. 22, 1932	Hollandsche Koopmansbank, Amsterdam.
Do	12,300	do	do	BYZE (Societe Financiere Suisse et Scandinave, Stockholm.

American certificates, representing deposited participating debentures of Kreuger & Toll Co. issued during month of March, 1932—Continued

Date of issue	Amount	To whom delivered	Date of delivery	For account of—
Mar. 31, 1932	1,000	Wertheim & Co	Apr. 1, 1932	BYZE (Societe Financiere Suisse et Scandinave, Stockholm.
Total	46,900			
Mar. 2, 1932	900	Hirsch, Lillienthal & Co	Mar. 3, 1932	Societe Financiere Suisse et Scandinave, Stockholm.
Mar. 4, 1932	500	do	Mar. 7, 1932	Do.
Mar. 5, 1932	1,000	do	do	Do.
Mar. 7, 1932	2,800	do	Mar. 8, 1932	Jacobson & Ponsbach, Stockholm.
Mar. 9, 1932	7,000	do	Mar. 10, 1932	H. Englander.
Mar. 14, 1932	4,000	do	Mar. 15, 1932	Do.
Mar. 15, 1932	6,000	do	Mar. 16, 1932	Lloyds Bank (Ltd.), London account No. 173.
Do	5,000	do	do	Sune Scheele.
Mar. 16, 1932	1,000	do	Mar. 17, 1932	Societe Financiere Suisse et Scandinave, Stockholm.
Mar. 17, 1932	5,000	do	Mar. 18, 1932	Do.
Mar. 18, 1932	4,500	do	Mar. 21, 1932	Do.
Mar. 21, 1932	185	do	Mar. 22, 1932	Swiss Bank Corporation, Basle.
Do	1,400	do	do	Union des Banques Suisses, Geneva.
Mar. 24, 1932	300	do	Mar. 28, 1932	Do.
Total	40,585			
Mar. 1, 1932	1,100	H. Hentz & Co	Mar. 2, 1932	E. Gruenberg, Berlin.
Mar. 5, 1932	3,000	do	Mar. 7, 1932	Do.
Mar. 14, 1932	3,000	do	Mar. 15, 1932	Do.
Do	400	do	do	Societe Financiere pour Valeurs Scandinave en Suisse, Geneva.
Mar. 15, 1932	4,000	do	Mar. 16, 1932	E. Gruenberg, Berlin.
Mar. 16, 1932	14,400	do	Mar. 17, 1932	Do.
Mar. 17, 1932	4,700	do	Mar. 18, 1932	Do.
Mar. 21, 1932	8,000	do	Mar. 22, 1932	Do.
Mar. 24, 1932	4,900	do	Mar. 28, 1932	Societe Financiere pour Valeurs Scandinave en Suisse, Geneva.
Total	43,500			

NOTE.—All of the above American certificates were issued by Lee, Higginson & Co. as transfer agents pursuant to authorization given by Lee, Higginson Trust Co., depositary, against the deposit with agents of the depositary abroad of equivalent amounts of participating debentures, such deposits having been made presumably for the account of the persons, firms, etc., listed above in the column "For account of."

American certificates representing deposited participating debentures of Kreuger & Toll Co. issued by Lee, Higginson & Co., as transfer agents, pursuant to authorization from Lee, Higginson Trust Co., depositary, against deposit abroad with agents of the depositary of equivalent amounts of participating debentures and delivered on March 14, 1932

Date of issue	Amount	Delivered to—	For account of—	Registered in name of—
Mar. 11, 1932	2,100	Central Hanover Bank & Trust Co.	Swiss Bank Corporation, London.	Suydam & Co.
Do	300	Herzfeld & Stern	Richard Hagglof, Stockholm.	Herzfeld & Stern.
Do	1,000	do	Jacobson & Ponnsbach, Stockholm.	Do.
Do	2,975	Morrison & Townsend.	Singer & Friedlander, London.	Morrison & Townsend.
Mar. 12, 1932	10,000	Hayden, Stone & Co	Bankirfirman a w Hogman & Co., Stockholm.	Hayden, Stone & Co.
Do	7,850	Wagner, Stott & Co	S. Japhet & Co. (Ltd.), London.	Wagner, Stott & Co.
Do	2,700	Abraham & Co	P. N. Kemp-Gee, London	Abraham & Co.
Total	26,925			

American certificates, representing deposited participating debentures of Kreuger & Toll Co., delivered on March 14, 1932, to complete sales made for the account of customers

Quantity	Delivered to—	Sold for account of—	Date of sale	Price
500	Jackson & Curtis	Chicago office customer	Mar. 11, 1932	5⅜
100	do	do	do	5⅜
200	do	do	do	5⅜
70	Carlisle, Mellick & Co	Mrs. Viola D. Sinnock	Mar. 12, 1932	4¾
1,000	D. T. Moore & Co	Charles H. Moses	do	5
100	do	Alexander Pinney	do	5
200	W. J. Fahy & Co	James J. Lee	do	5½
100	do	Mrs. Emily S. Lee	do	5⅛
100	Stern, Kempner & Co	Thomas J. Cummins	do	5¼
100	do	Mrs. Viola D. Sinnock	do	5
400	do	John R. Meyers	do	5¼
200	do	Mrs. Anna H. Meyers	do	5¼
200	do	Charles J. Wilson	do	5¼
3,270				

Mr. MARRINAN. I may say, Mr. Durant, that in one of Mr. Gray's reports to this committee made available to me in my part of the inquiry, this statement appears: "I was informed"—I say this now in order that I may be entirely fair with you, because I propose to introduce evidence from other witnesses which would be in conflict with this statement. I read: "Report to Mr. Gray from an accountant." It is already, I believe, in one of the exhibits. If it is not, then I will have it incorporated as a document, so that you will have an opportunity to see that it is an authentic document. "I was informed that while Lee, Higginson did not sell on that day"—March 12—"they also did not execute buying orders which had been received by them from their customers." It is now my understanding that you upon the basis of information recently disclosed to you wish to amend that in behalf of Lee, Higginson?

Mr. DURANT. I am not sure that I wish to amend it. I would like to look it up, sir.

Mr. MARRINAN. Good enough. That is all about that.

Senator COSTIGAN. Are you going to suspend now, Mr. Chairman?

The CHAIRMAN. You have something else?

Mr. MARRINAN. Yes, sir. Just one moment.

The CHAIRMAN. When you get through.

Mr. MARRINAN. I would like to suspend, Senator, for a few moments in order to get some of my papers together.

The CHAIRMAN. You may go ahead, Senator, while he is looking at his papers.

Senator COSTIGAN. References were made, Mr. Durant, recently to cablegrams to America sent following the death of Kreuger. Nothing has been said about telephone messages. Did you or did you not telephone to your associates in the United States about the reported death of Kreuger?

Mr. DURANT. No, sir; I did not.

Senator COSTIGAN. There were no telephone messages?

Mr. DURANT. Not on that subject.

Senator COSTIGAN. On that subject?

Mr. DURANT. No, sir.

Senator COSTIGAN. On that day?

Mr. DURANT. No, sir; not by me, and I certainly do not think by anyone else.

Mr. MARRINAN. Well, Mr. Durant, do you think it a fair statement that foreign holders of Kreuger & Toll securities appeared to have had better information, and to have had an opportunity to act upon that information, than American holders during the period immediately preceding Kreuger's death and on the morning during which this information was withheld from the American public? Is that a fair statement?

Mr. DURANT. I have no way of knowing. I do not think the European investor had anything different.

Mr. MARRINAN. What would you draw from the fact that there were these very definitely traced transactions originating in Paris and totaling, we know, 148,000 shares out of a total of 165,400, all coming through American houses, most of them with branches in Paris? Isn't it a reasonable conclusion that the French were acting upon the information?

Mr. DURANT. Not necessarily. I would be surprised, Mr. Marrinan, if they were.

Mr. MARRINAN. All right, sir.

The CHAIRMAN. But at least the Americans did not have the information on that day when the French were unloading the Kreuger & Toll stocks?

Mr. DURANT. They did not know it through us.

Mr. MARRINAN. Mr. Durant, to leave that Paris situation. Why did the firm of Lee, Higginson & Co. fail to require any audit of the books of Kreuger & Toll in connection with this secured debenture issue?

Mr. DURANT. The books of Kreuger & Toll have been audited since the start of the company in accordance with Swedish customs, Swedish law, which provides that the stockholders appoint each year an auditing committee to audit the books for the——

The CHAIRMAN. One moment. The Swedish law, then, does, not require a Government audit? It simply requires that the owners themselves, who are the directors, of which you were one, provide for an audit in your own way; is that it?

Mr. DURANT. That is not correct, sir; I would not say that.

The CHAIRMAN. Well, what is it, then? If I have got it wrong, you state it.

Mr. DURANT. The stockholders of the company, I believe, appoint a committee to audit the books of the company. That is not done by the directors. I was not a director of the company when we bought this issue, Senator.

The CHAIRMAN. The owners of the company——

Mr. DURANT (interposing). The stockholders.

The CHAIRMAN (continuing). Which desired to sell these bonds, debentures, or stocks, make their own audit, and that is all the Swedish law requires, is that it?

Mr. DURANT. Well, I know——

The CHAIRMAN. Well, is that your statement?

Mr. DURANT. The statement was that this company had audits in connection with its business according to the best Swedish practice.

The CHAIRMAN. No, your statement was that it was made in accordance with the Swedish law, and you told us what the Swedish law was, and I am trying to have you just repeat it.

Mr. DURANT. Well, Senator Norbeck, I am not a lawyer, and I do not mean to quote Swedish law.

The CHAIRMAN. Well, the question was asked you why didn't you have an audit, and you said it was audited according to Swedish law. So, therefore, we are asking you what the Swedish law was. You are a director of the company.

Mr. DURANT. Well, we had had a connection with this company before that—the Swedish-American Investment Corporation, which was the most important subsidiary of Kreuger & Toll, I believe, the largest one.

The CHAIRMAN. But, anyhow, the point was that your firm made no audit of Kreuger & Toll?

Mr. DURANT. We made no outside American audit by American auditors.

The CHAIRMAN. No.

Mr. DURANT. We have mentioned before, Senator, the reports of Kreuger & Toll for many years, since the start, with the certificate of the Swedish auditing committee for each one, and we have them here if the committee would like to have them to put in the record.

The CHAIRMAN. I shall take that up when I have a full committee here as to whether to print all of them in the record, but you may state for the record briefly what they contain. What you are offering for the record now is what?

Mr. DURANT. Annual reports of Kreuger & Toll since from 1911 to 1930. Which contain the certificates of the auditing committee each year.

The CHAIRMAN. Well, that matter will be held in abeyance for the committee to act upon, because of its volume. I do not know whether there is any occasion for printing all that. If you care to make a summary of what it contains you may do so.

Senator COSTIGAN. Have you any list identifying the members of the respective auditing committees so that the committee will know something of the responsibility of such members?

Mr. DURANT. I have not. I will have to get it for you, Senator.

Senator COSTIGAN. Will you endeavor to do so?

Mr. DURANT. Certainly.

Mr. MARRINAN. Mr. Durant, as I understand it then, you were satisfied to accept in behalf of your own interest as bankers, and in connection with your responsibility to American holders, the Swedish law and the Swedish provisions for accounting, is that correct?

Mr. DURANT. We had—of course we had——

Mr. MARRINAN. Now please answer. Is that the situation? You did in fact accept that set-up, did you not, sir?

Mr. DURANT. We accepted the standing of the company and in fact with certain checks, though, that I would like to explain.

Mr. MARRINAN. All right, sir; go ahead. Do not make it too long. I am not trying to shut you off, or make you answer on a yes or no basis, but I am trying to economize the time of members of the committee.

Mr. DURANT. Well, may I suggest, if you want to economize the time—may I just make a little memorandum on that and present it to the committee?

Mr. MARRINAN. No; while we are at it perhaps it would be better to put it in right here, if it is not too long.

The CHAIRMAN. You may make a brief statement now, and we will also consider the question whether we will print a further memorandum.

Mr. MARRINAN. Go ahead, Mr. Durant.

Mr. DURANT. Before this issue was bought we had many years; probably five or six years' contact with the Kreuger associations, some of his companies, our London office of the Swedish Match Co., with their accountants, and the International Match with their accountants on that. Also the Swedish-American Investment Corporation, which was the first subsidiary of Kreuger & Toll of that nature that was offered here. There was a firm of American accountants employed on that. That later became part of—was more or less merged into Kreuger & Toll, and was primarily the biggest part of it. The same auditors who were officially engaged in some of these other companies that I just spoke of assisted us in trying to get the figures. Their frequent trips to Sweden gave them a position of knowing something about the company.

Mr. MARRINAN. We have Mr. Berning here.

Mr. DURANT. The figures in the listing statement were collated by American accountants on the spot, although the name does not appear—although they were not hired formally, and the name does not appear on the work.

The CHAIRMAN. The committee will have to recess soon. There is one question here which has not been answered. We can release you now after recess, but you will continue under subpœna. There is one matter here that must be cleared up, and that is: When was that indenture written? Was it after the securities were sold or was it before? Another one: When did the substitutions take place as relating to the sales?

Mr. DURANT. I will be glad to look up the dates, Senator.

The CHAIRMAN. We will have to get that into this record.

Mr. DURANT. Certainly.

Senator GOLDSBOROUGH. You have been asked to give short answers, but questions being long necessarily you will have to give long answers.

Mr. DURANT. Sometimes. Not always, sir.

The CHAIRMAN. You may proceed, Mr. Marrinan.

Mr. MARRINAN. Mr. Durant, in the light of your experience prior to and subsequent to the death of Kreuger would you now promote the securities or handle as a banker the securities of a foreign holding company without an adequate audit of the parent company and also of its subsidiaries?

Mr. DURANT. Well, that leads to a conclusion. That is a pretty hard question to answer as a general question. I think each case, Mr. Marrinan, would have to be taken on its merits.

Mr. MARRINAN. I want to be fair about it. May I limit the question. Would you be very much more painstaking in your regard for accurate information than you seem to have been in the Kreuger & Toll situation?

Mr. DURANT. Well, that would be—I would be very keen to get accurate information. In this particular case the information which came from certain accountants in Sweden proved to be inaccurate, as the court records in Sweden have shown since. The question of——

Mr. MARRINAN. But you had an opportunity to audit independently if you had undertaken the job; isn't that true?

Mr. DURANT. Well, I would not say that we had an opportunity. I don't know. This was the leading company in Sweden. And Sweden did not——

Mr. MARRINAN. Is it not a fact that Ernst & Ernst, who represented you in the International Match situation, did constantly try to get that job of auditing this outfit?

Mr. DURANT. I think they had some conversations with the company about it—with Mr. Kreuger.

Mr. MARRINAN. And conversations with you about it?

Mr. DURANT. I think they had some with us.

Mr. MARRINAN. And chased Kreuger all over Europe and tried to get the job, but never could catch him to discuss that question; isn't that true?

Mr. DURANT. I would doubt that, sir.

Mr. MARRINAN. Well, we will have that taken up later.

Senator COSTIGAN. Has the Kreuger & Toll experience not led to certain changes in your practice designed to bring about better protection of the public in its investment in such securities as were marketed for Kreuger & Toll by Lee, Higginson & Co.?

Mr. DURANT. I am sorry to say, sir, that the old firm of Lee, Higginson & Co. is not in active issue business any longer.

Senator COSTIGAN. Read my question, Mr. Reporter.

(Thereupon the last question was read by the reporter as above recorded.)

Senator COSTIGAN. My question was not intended to be directed to a change in the practice of Lee, Higginson & Co., but a change in the practice of marketing securities in this country.

Mr. DURANT. I think, Senator, I answered it as far as I can with regard to Lee, Higginson.

Senator COSTIGAN. Well, let us make it a personal question. Do you yourself not feel that the public should be better safeguarded than it was in the transaction about which you have been testifying this morning?

Mr. DURANT. I think the public should be safeguarded in every possible way to prevent this kind of thing.

Senator COSTIGAN. Do you feel it was safeguarded?

Mr. DURANT. I feel that certain things—in the light of hind-sight—perhaps we might have done some other things.

Senator COSTIGAN. What corrections in future practice do you submit to the committee?

Mr. DURANT. I find that is a little hard to answer, Senator, in regard to this question, because the trouble with this company was the head of it was apparently trying to give inaccurate information. In other words if one had that feeling about the head of a company one would not want to be his banker anyway.

Senator COSTIGAN. Do you know of no legislation or changes in stock-exchange practice which would better safeguard the public?

Mr. DURANT. I believe that out of all this there will come clear lines on which that could be done, but I would say as a layman that the present time is perhaps too soon in all these troubles to find out just what the right procedure would be in the future. I think something will come out of it. But perhaps we may be too prejudiced just now.

Senator COSTIGAN. You have no recommendations to offer the committee?

Mr. DURANT. Plenty of information in regard to securities. I am a great believer in that—more and more all the time.

Senator COSTIGAN. You have no legislative recommendations?

Mr. DURANT. Not at this time. I would feel that I was too soon.

Mr. MARRINAN. My examination of Mr. Durant is completed. I wish to thank especially the members of the committee for permitting me to continue without interruption. As far as I am concerned, Mr. Durant is excused. I may say that Mr. Durant has given me all information that I required in New York. And in pressing him I was not endeavoring to in any manner trip him over the representations that were made to me in New York.

Mr. DURANT. That is right. Thank you.

The CHAIRMAN. The committee will recess until 2.30, at which time we will reconvene for the purpose of hearing three witnesses. The session is expected to last an hour. I say we will reconvene if we can get a majority of the committee present, which I think we can. We will now recess until 2.30, to meet in this room.

(Thereupon at 12.30 p. m. a recess was taken until 2.30 p. m. the same day, Wednesday, January 11, 1933.)

(Mr. Durant submitted the following additional information for the record upon request of the committee:)

LEE, HIGGINSON & Co.,
New York, January 17, 1933.

JOHN MARRINAN, Esq.,
Senate Committee on Banking and Currency,
Washington, D. C.

DEAR MR. MARRINAN: With reference to my testimony before the Senate committee on January 11, I am inclosing the following additional data for which you asked at that time:

1. List of partners of Lee, Higginson & Co. as of the date of the hearings.
2. List of the members of the syndicate which purchased the Kreuger & Toll Co. 5 per cent secured debentures, due 1959, which were taken in the United States.
3. Photostat copy of my cable of March 12, 1932, to my partners in New York informing them of the death of Mr. Kreuger.

With regard to the last inclosure, I wish to state, in answer to your question as to the exact time the cable was received, that the member of the firm who first saw the cable is at present abroad so that I am only able to establish the time on the basis of information furnished me by other members of our organization who were present. To the best of their recollection, the cable was given to my partner, Mr. George Murnane, on his arrival at the office at about 10 o'clock or shortly thereafter on the morning of March 12, 1932. The cable, you will note, is addressed "For partners only" and Mr. Murnane was the first member of the firm to arrive at the office on that day.

I am informed by the man in charge of our order department that at about 10.15 o'clock, he was instructed to cancel all buying orders on hand for clients in Kreuger & Toll securities and execute no further buying orders pending further instructions.

It is his definite recollection that he immediately returned to the order department and proceeded with all possible dispatch to communicate with our brokers, of which there were a number, and cancel all such orders with them and he feels certain that the cancellations were completely effected by 10.30 or 10.35 o'clock at the latest. My information is that the only buying orders executed that day were in this short interval until cancellations were effected.

I understood that Senator Norbeck was anxious to have the date on which the debenture agreement of March 1, 1929, was prepared. This information, I believe, was subsequently furnished in detail by Mr. Roland Redmond, who testified following me.

I am not sure whether or not you required any further information with regard to the dates of withdrawals and substitutions made in the collateral pledged for the debenture issue. Senator Norbeck asked for the dates of the substitutions

in relation to the date on which the offering of secured debentures was made. This latter date was March 7, 1929, as you know, and I think the list of collateral withdrawals and substitutions which you have shows that the first change in the underlying collateral took place on July 1, 1929, in the nominal amount of approximately $14,000 par value Republic of Ecuador 8 per cent bonds which were withdrawn to satisfy sinking-fund requirements on that issue.

Respectfully yours,

DONALD DURANT.

PARTNERS OF THE FIRM OF LEE, HIGGINSON & CO.

George C. Lee, N. Penrose Hallowell, Francis L. Higginson, Frederic W. Allen, Charles H. Schweppe, Sir W. Guy Granet, Jerome D. Greene, Barrett Wendell, jr., James Nowell, Charles E. Cotting, Donald Durant, George Murnane, Edward H. Osgood, William McCormick Blair, Edward N. Jesup, Ralph Lowell. (As of January 11, 1932.)

LIST OF MEMBERS OF SYNDICATE WHICH OFFERED THE KREUGER & TOLL CO. 5 PER CENT SECURED SINKING FUND GOLD DEBENTURES IN THE UNITED STATES

Merchants Bank & Trust Co., Daytona Beach, Fla.
Florida National Bank, Jacksonville, Fla.
Bank of Bay Biscayne, Miami, Fla.
Citizens Security Co., Tampa, Fla.
First National Bank, Miami, Fla.
Courts & Co., Atlanta, Ga.
Fourth National Co., Atlanta, Ga.
Trust Co. of Georgia, Atlanta, Ga.
Baker, Watts & Co., Baltimore, Md.
Alex. Brown & Sons, Baltimore, Md.
Mackubin, Goodrich & Co., Baltimore, Md.
Strother, Brogden & Co., Baltimore, Md.
C. T. Williams & Co. (Inc.), Baltimore, Md.
Sloan & Sloan, Jersey City, N. J.
Trust Co. of New Jersey, Jersey City, N. J.
Fidelity Union Stock & Bond, Newark, N. J.
Post & Flagg, Newark, N. J.
The Standard Security Corporation of New Jersey, Newark, N. J.
First Trust Co. of Albany, Albany, N. Y.
John A. Langan, Albany, N. Y.
The National Commerce Bank & Trust Co., Albany, N. Y.
New York State National Bank, Albany, N. Y.
National Bank of Auburn, Auburn, N. Y.
Baker, Trubee & Putnam (Inc.), Buffalo, N. Y.
Brody, Herod & Co., Buffalo, N. Y.
Glenny, Monro & Moll, Buffalo, N. Y.
Manufacturers & Traders-Peoples Trust Co., Buffalo, N. Y.
The Marine Trust Co. of Buffalo, Buffalo, N. Y.
Schoellkopf, Hutton & Pomeroy (Inc.), Buffalo, N. Y.
Vietor, Common & Co. (Inc.), Buffalo, N. Y.
First National Bank, Cooperstown, N. Y.
Chemung Canal Trust Co., Elmira, N. Y.
Livingston County Trust Co., Geneseo, N. Y.
First National Bank, Glens Falls, N. Y.
Fulton County National Bank of Gloversville, Gloversville, N. Y.
National Chautauqua County Bank, Jamestown, N. Y.
The Peoples Bank, Johnstown, N. Y.
Anglo California Co., New York City.
American Trust Co., New York City.
Auerbach, Pollak & Richardson, New York City.
Bankamerica Corporation, New York City.
Bankers Co. of New York, New York City.
Charles D. Barney & Co., New York City.
Battelle, Ludwig & Co., New York City.
August Belmont & Co. New York City.
Bonbright & Co., New York City.
Brown Bros & Co., New York City.
Calloway, Fish & Co., New York City.
Clark, Dodge & Co., New York City.

Colston, Heald & Trail, New York City.
Craigmyle & Co., New York City.
Du Bosque, De Witt & Co. New York City.
Eastern Exchange Corporation, New York City.
Equitable Trust Co. of New York, New York City.
Fidelity Trust Co. of New York, New York City.
Samuel Frankenheim, New York City.
Glidden, Morris & Co., New York City.
Guaranty Company of New York, New York City.
Hallgarten & Co., New York City.
H. W. Halsey & Co. (Inc.), New York City.
Hambleton & Co. (Inc.), New York City.
W. A. Harriman & Co. (Inc.), New York City.
Hayden, Stone & Co., New York City.
Hemphill, Noyes & Co., New York City.
Howe, Snow & Co. (Inc.), New York City.
International Germanic Co. (Ltd.), New York City.
A. Iselin & Co., New York City.
Kelley, Converse & Co. (Inc.), New York City.
Ladenburg, Thalmann & Co., New York City.
Lamborn, Hutchings & Co., New York City.
Lee, Higginson & Co., New York City.
Lehman Brothers, New York City.
Lord & Crossman (Inc.), New York City.
Manufacturers Trust Co., New York City.
Maynard, Oakley & Lawrence, New York City.
McDonnell & Co., New York City.
M. J. Meehan & Co., New York City.
Merrill, Lynch & Co., New York City.
Minsch, Monell & Co. (Inc.), New York City.
Montreal Co. of New York (Inc.), New York City.
J. P. Morgan & Co., New York City.
Muller, Sinclair & Co., New York City.
National City Co., The, New York City.
The National Park Bank of New York, New York City.
Naumburg, Dixon & Co., New York City.
New York Financial & Community Corporation, New York City.
New York & Hanseatic Corporation, New York City.
Otis & Co., New York City.
Phelps, Ellis & McKee, New York City.
Phelps, Fenn & Co., New York City.
C. A. Preim & Co., New York City.
C. B. Richard & Co., New York City.
J. A. Ritchie & Co. (Inc.), New York City.
Charles D. Robbins & Co., New York City.
P. A. Rockefeller, New York City.
R. J. Ross & Co., New York City.
L. F. Rothschild & Co., New York City.
Salomon Bros. & Hutzler, New York City.
J. Henry Schroder Banking Corporation, New York City.
J. & W. Seligman & Co., New York City.
Shields & Co. (Inc.), New York City.
Edward B. Smith & Co., New York City.
Sutro & Kimbley, New York City.
Lionel Sutro, New York City.
Trust Co. of North America, New York City.
R. F. Westerfield & Co., New York City.
J. G. White & Co. (Inc.), New York City.
White, Weld & Co., New York City.
F. A. Willard & Co., New York City.
Clark Williams & Co., New York City.
Winslow, Lanier & Co., New York City.
The Oswegatchie Security Corporation, Ogdensburg, N. Y.
Hibbard, Palmer & Kitchen, Rochester, N. Y.
Little & Hopkins, Rochester, N. Y.
I. W. Steel & Co., Rochester, N. Y.
City Bank & Trust Co., Syracuse, N. Y.
First Trust & Deposit Co., Syracuse, N. Y.

Syracuse Trust Co., Syracuse, N. Y.
Charles A. Stone & Co., Troy, N. Y.
Orton H. Thomas, Troy, N. Y.
Citizens Trust Co., Utica, N. Y.
Jefferson Securities Corporation, Watertown, N. Y.
Northern New York Securities Corporation, Watertown, N. Y.
Watertown National Corporation, Watertown, N. Y.
R. V. Mitchell & Co., Canton, Ohio.
Fifth-Third Union Co., Cincinnati, Ohio.
First National Bank, Cincinnati, Ohio.
The George C. Riley Co., Cincinnati, Ohio.
Central National Bank, Cleveland, Ohio.
Hayden, Miller & Co., Cleveland, Ohio.
The Herrick Co., Cleveland, Ohio.
Hord, Curtiss & Co., Cleveland, Ohio.
Harry W. Hosford, Cleveland, Ohio.
Midland Bank, Cleveland, Ohio.
Maynard H. Murch & Co., Cleveland, Ohio.
The Union Trust Co., Cleveland, Ohio.
First Citizens Corporation, Columbus, Ohio.
Huntington National Bank, Columbus, Ohio.
Ohio National Bank, Columbus, Ohio.
The Dayton Savings & Trust Co., Dayton, Ohio.
The Huffman Co., Dayton, Ohio.
Collin, Norton & Co., Toledo, Ohio.
Wick & Co., Youngstown, Ohio.
First National Bank, Braddock, Pa.
Erie Trust Co., Erie, Pa.
Charles Messenkoff & Co., Erie, Pa.
Graham & Co. (Ltd.), Masontown, Pa.
Norristown-Penn Trust Co., Norristown, Pa.
Bioren & Co., Philadelphia, Pa.
Cadbury, Ellis & Haines, Philadelphia, Pa.
Cassatt & Co., Philadelphia, Pa.
E. W. Clark & Co., Philadelphia, Pa.
Fitch, Crossman & Co., Philadelphia, Pa.
J. W. Fry & Co., Philadelphia, Pa.
C. H. Geist Securities Corporation, Philadelphia, Pa.
Harrison, Smith & Co., Philadelphia, Pa.
Janney & Co., Philadelphia, Pa.
Lloyd & Palmer, Philadelphia, Pa.
Luckey & Co., Philadelphia, Pa.
W. H. Newbold's Son & Co., Philadelphia, Pa.
Smith Bros. & Co., Philadelphia, Pa.
Walter Stokes & Co., Philadelphia, Pa.
Rufus Wafles & Co., Philadelphia, Pa.
Townsend, Whelen & Co., Philadelphia, Pa.
George G. Applegate, Pittsburgh, Pa.
City Deposit Bank & Trust Co., Pittsburgh, Pa.
Colonial Trust Co., Pittsburgh, Pa.
Diamond National Bank, Pittsburgh, Pa.
Farmers Deposit National Bank, Pittsburgh, Pa.
First National Bank at Pittsburgh, Pittsburgh, Pa.
Glover & MacGregor, Pittsburgh, Pa.
J. H. Holmes & Co., Pittsburgh, Pa.
Mellon National Bank, Pittsburgh, Pa.
Moore, Leonard & Lynch, Pittsburgh, Pa.
Peoples Savings & Trust Co. of Pittsburgh, Pittsburgh, Pa.
K. W. Todd & Co., Pittsburgh, Pa.
Union National Bank, Pittsburgh, Pa.
The Union Trust Co. of Pittsburgh, Pittsburgh, Pa.
S. M. Vockel & Co., Pittsburgh, Pa.
First National Bank, Sharon, Pa.
Dime Bank Title & Trust Co., Wilkes-Barre, Pa.
The South Carolina National Bank, Charleston, S. C.
Investment Corporation of Norfolk, Norfolk, Va.
Grace Securities Corporation, Richmond, Va.
Frederick E. Nolting & Co., Richmond, Va.

State Planters Bank & Trust Co., Richmond, Va.
John L. Williams & Sons, Richmond, Va.
Y. E. Booker & Co., Washington, D. C.
Henderson-Winder Co., Washington, D. C.
Hill & Blackman, Bridgeport, Conn.
Merritt, E. B., & Co. (Inc.), Bridgeport, Conn.
Putnam & Co., Hartford, Conn.
Scranton, Chas. W., & Co., New Haven, Conn.
Merrill Securities Corporation, Bangor, Me.
Beyer & Small, Portland, Me.
Fidelity Trust Co., Portland, Me.
Gilman, C. H., & Co., Portland, Me.
Ireland & Co., Portland, Me.
Jones, Gould, Bartlett & Clark Co., Portland, Me.
Adams Mudge & Co., Boston, Mass.
Atlantic Merrill Oldham Corporation, Boston, Mass.
Bond & Goodwin (Inc.), Boston, Mass.
Burgess & Leith, Boston, Mass.
Burr, Geo. H., & Co., Boston, Mass.
Burr, Gannett & Co., Boston, Mass.
Chase & Co., Boston, Mass.
Claflin, Hubbard & Jenkins, Boston, Mass.
Collins, Breed & Sharp, Boston, Mass.
Curtis & Sanger, Boston, Mass.
Dowling, Swain, Shea (Inc.), Boston, Mass.
Eaton & Howard, Boston, Mass.
Estabrook & Co., Boston, Mass.
Exchange Trust Co., Boston, Mass.
Federal National Bank, Boston, Mass.
First National Old Colony, Boston, Mass.
Hornblower & Weeks, Boston, Mass.
Hutchinson, James A., & Co., Boston, Mass.
Hutchins & Parkinson, Boston, Mass.
Jackons & Curtis, Boston, Mass.
Lee Higginson Trust Co., Boston, Mass.
March & Kimball, Boston, Mass.
McMichael & Co. (Inc.), Boston, Mass.
Moseley, F. S., & Co., Boston, Mass.
Old Colony Corporation, Boston, Mass.
Paine, Webber & Co., Boston, Mass.
Pearson, Erhard & Co., Boston, Mass.
Putnam, F. L., & Co. (Inc.), Boston, Mass.
Rollins, E. H., & Sons, Boston, Mass.
Shawmut Corporation of Boston, Boston, Mass.
Stone & Webster and Blodget (Inc.), Boston, Mass.
Stokes, Edward Lowber, & Co., Boston, Mass.
Spencer Trask & Co., Boston, Mass.
Tucker, Anthony & Co., Boston, Mass.
U. S. Trust Co., Boston, Mass.
Watson, E. A., & Co., Boston, Mass.
Whitney, Byam & Co., Boston, Mass.
Whitney & Elwell, Boston, Mass.
The Kidder Co. of Lowell, Lowell, Mass.
Agricultural National Bank, Pittsfield, Mass.
Pittsfield Securities Corporation, Pittsfield, Mass.
Hawkins, John Torrey, Springfield, Mass.
Pirnie, Simons & Co. (Inc.), Springfield, Mass.
Barrett Cummings & Evans, Rhode Island.
Brown, Liale & Marshall, Rhode Island.
Mandeville, Brooks & Chaffee, Rhode Island.
Anglo London Paris Co., San Francisco, Calif.
Lewis Miller Co., San Francisco, Calif.
W. W. Armstrong Co., Aurora, Ill.
G. R. Wortman Co., Aurora, Ill.
Kenneth H. Smith & Co., Champaign, Ill.
Babcock, Rushton & Co., Chicago, Ill.
Bacon, Whipple & Co., Chicago, Ill.
Alfred L. Baker & Co., Chicago, Ill.

Central Trust Co. of Illinois, Chicago, Ill. (Successors to Bank of America.)
Blyth & Co., Chicago, Ill.
Alexander Byfield, Chicago, Ill.
H. M. Byllesby & Co., Chicago, Ill.
Central Trust Co. of Illinois, Chicago, Ill.
Ralph Chapman & Co., Chicago, Ill.
Chapman, Grannis & Co., Chicago, Ill.
Wm. R. Compton & Co., Chicago, Ill.
Paul H. Davis & Co., Chicago, Ill.
The Detroit Co., Chicago, Ill.
Drovers National Bank, Chicago, Ill.
Fidelity Trust & Savings Bank, Chicago, Ill.
Field, Glore & Co., Chicago, Ill.
Foreman Trust & Savings Bk., Chicago, Ill.
Porter, Fox & Co., Chicago, Ill.
Illinois Merchants Trust Co., Chicago, Ill.
Irving Park National Bank, Chicago, Ill.
Jefferson Park National Bank, Chicago, Ill.
Kaspar-American State Bank, Chicago, Ill.
Kimbell Trust & Savings Bank, Chicago, Ill.
John P. Lavin & Co., Chicago, Ill.
Lewis-Dawes & Co. (Inc.), Chicago, Ill.
Market Traders State Bank, Chicago, Ill.
Marshfield Trust & Savings Bank, Chicago, Ill.
W. B. McMillan & Co., Chicago, Ill.
Mitchell, Hutchins & Co. (Inc.), Chicago, Ill.
National Republic Co., Chicago, Ill.
Northern Trust Co., Chicago, Ill.
Northwestern Securities Co., Chicago, Ill.
Wm. L. Ross & Co. (Inc.), Chicago, Ill.
C. L. Schmidt & Co. (Inc.), Chicago, Ill.
Sheridan Trust & Savings Bank, Chicago, Ill.
State Bank of Chicago, Chicago, Ill.
Taylor, Ewart & Co., Chicago, Ill.
State Bank & Trust Co., Evanston, Ill.
Moline State Trust & Savings Bank, Moline, Ill.
National Stock Yards National Bank, National Stock Yards, Ill.
Merchants & Illinois National Bank, Peoria, Ill.
State Savings Loan & Trust Co., Quincy, Ill.
Catlin, Mulford & Smith (Inc.), Rockford, Ill.
Ramey, Bassett & Co., Rockford, Ill.
City Securities Corporation, Indianapolis, Ind.
Continental National Bank, Indianapolis, Ind.
Fletcher Savings & Trust Co., Indianapolis, Ind.
First National Bank & Trust Co., La Porte, Ind.
American Trust Co., South Bend, Ind.
Citizens Trust & Savings Bank, South Bend, Ind.
St. Joseph Loan & Trust Company, South Bend, Ind.
Peoples Trust & Savings Bank, Clinton, Iowa.
American Commercial & Savings Bank, Davenport, Iowa.
First National Bank, Davenport, Iowa.
Union Savings Bank & Trust Co., Davenport, Iowa.
Des Moines National Co., Des Moines, Iowa.
Metcalf, Cowgill & Co. (Inc.), Des Moines, Iowa.
Wheelock & Company, Des Moines, Iowa.
American Savings Bank, Muscatine, Iowa.
Muscatine State Bank, Muscatine, Iowa.
C. W. Britton Co., Sioux City, Iowa.
Woodbury County Savings Bank, Sioux City, Iowa.
Hibernia Securities Co. (Inc.), New Orleans, La.
Watson, Williams & Co., New Orleans, La.
First National Co., Detroit, Mich.
National Union Bank & Trust Co., Jackson, Mich.
Kalamazoo National Co., Kalamazoo, Mich.
Central Trust Co., Lansing, Mich.
Drake-Jones Co., Minneapolis, Minn.
Lane, Piper & Jaffray (Inc.), Minneapolis, Minn.
Justus F. Lowe & Co. (Inc.), Minneapolis, Minn.

First Minneapolis Co., Minneapolis, Minn.
Minnesota Co., Minneapolis, Minn.
Wells-Dickey Co., Minneapolis, Minn.
Grubbs, Booraem & Co., St. Paul, Minn.
Merchants National Co., St. Paul, Minn.
C. H. F. Smith & Son, St. Paul, Minn.
Harold E. Wood & Co., St. Paul, Minn.
Commerce Trust Co., Kansas City, Mo.
Home Trust Co., Kansas City, Mo.
Stern Bros. & Co., Kansas City, Mo.
L. E. Anderson & Co., St. Louis, Mo.
Oliver J. Anderson & Co., St. Louis, Mo.
Augustine & Co., St. Louis, Mo.
Daly, Seddon & Co., St. Louis, Mo.
Federal Commerce Trust Co., St. Louis, Mo.
Hawes & Co. (Inc.), St. Louis, Mo.
Kauffman, Smith & Co., St. Louis, Mo.
Knight, Dysart & Gamble, St. Louis, Mo.
Reinholdt & Co., St. Louis, Mo.
Smith, Moore & Co., St. Louis, Mo.
Mark C. Steinberg & Co., St. Louis, Mo.
Wetzel Bros. & Co., St. Louis, Mo.
First Trust Co., Lincoln, Nebr.
Burns, Potter & Co., Omaha, Nebr.
Clarke, Lewis & Co., Omaha, Nebr.
First Trust Co., Omaha, Nebr.
Peters Trust Co., Omaha, Nebr.
Wachob, Bender & Co., Omaha, Nebr.
The First National Bank of Lead, Lead, S. Dak.
Minnehaha National Bank, Sioux Falls, S. Dak.
Security National Bank, Sioux Falls, S. Dak.
Ameil Brinkley & Co., Memphis, Tenn.
Republic National Co., Dallas, Tex.
Dunn & Carr, Houston, Tex.
Swaner & Co., Salt Lake City, Utah.
Baillargeon, Winslow & Co., Seattle, Wash.
Smith & Strout (Inc.), Seattle, Wash.
Murphy, Favre & Co., Spokane, Wash.
Beloit State Bank, Beloit, Wis.
First National Bank, Janesville, Wis.
Merchants & Savings Bank, Janesville, Wis.
Bank of Wisconsin, Madison, Wis.
Central Wisconsin Trust Co., Madison, Wis.
Commercial National Bank, Madison, Wis.
Madison Trust Co., Madison, Wis.
Badger State Bank, Milwaukee, Wis.
First Wisconsin Co., Milwaukee, Wis.
Marshall & Ilsley Bank, Milwaukee, Wis.
The Milwaukee Co., Milwaukee, Wis.
National Bank of Commerce, Milwaukee, Wis.
National Exchange Bank, Milwaukee, Wis.
The Quarles Co., Milwaukee, Wis.
First National Bank, Monroe, Wis.

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DONALD
909 AMCF

NEW YORK, *February 3, 1933.*

JOHN MARRINAN, Esq.,
Senate Committee on Banking and Currency, Washington, D. C.

DEAR MR. MARRINAN: I have delayed answering your letter of January 19 to enable me to give a fuller reply to it than I could have written at once.

On the subject of the auditing of the accounts of Kreuger & Toll Co. I submit the following information: Since 1911, the year in which Kreuger & Toll Co. was organized, the company's accounts have been certified by auditors elected by the shareholders at their annual meeting, in accordance with the company's statutes. Copies of the company's annual reports in Swedish with the annexed auditors' certificates were submitted to the committee at the Senate hearing on January 11, 1933, and those reports should be annexed to this letter.

None of the auditors were directors or officers of the company. For the years 1912 to 1918, inclusive, G. C. A. Lindencrona and Per Tamm were the auditors. For 1919 to 1929, inclusive, Tamm was replaced by Ernst Bergenstrom, and in 1930 A. Wendler was added as a third auditor. I am informed that Lindencrona was a civil servant, employed by the Swedish Government as a first assistant to the Government's supervisor of roads, water supplies, and buildings; Bergenstrom was a banker and broker of Stockholm; and Wendler was an accountant approved by certificate of the Stockholm Chamber of Commerce. His firm consisted of six partners who were auditors for many Swedish companies apart from those in the Kreuger & Toll group. J. Wendler, a partner in the firm and a brother of A. Wendler, was at one time appointed an auditor of the Grangesberg Co., in whose principal subsidiary the Swedish Government has a half interest.

For the years 1912 and 1913 the language of the auditors' certificate is essentially the same. The certificate covering the 1913 report reads, in translation, as follows:

STOCKHOLM, *April 7, 1914.*

The undersigned, who were appointed to examine the accounts and administration of the Aktiebolaget Kreuger & Toll for the year 1913, have examined the accounts of the company, which we found were conducted with exceptional care, accompanied by complete vouchers; furthermore the balance sheet, the profit and loss account, and the statements of write-offs (amortizations) agree with the accounts. The documents of value entered in the balance sheet issued as assets have been found in the possession of the company.

We have no objections to make to the suggestions of the board as regards the balance sheet issued, recommending that out of the amount on hand at the end of the year, namely, 209,397.54 crowns, 12 per cent be distributed among the stockholders in the amount of 120,000 crowns; that 14,000 crowns be used for the stamp charges on the new shares of stock; that 50,000 crowns be set aside for a profit-regulating fund and that the balance of 25,397.54 crowns be carried forward to the profit and loss account for 1914.

We are of the opinion that the reasons set forth in the report of the management for the write-offs on machines and the entries of material which were also set forth in the report of the board for 1911, and which reasons also apply at the present time, are well taken.

In view of the above we herewith recommend to the meeting that the board be discharged from any responsibility.

G. C. A. LINDENCRONA,
Per TAMM.

The type of certificate given for the years 1914 to 1921, inclusive, is illustrated by that given for 1921, which reads, in translation, as follows:

STOCKHOLM, *April 29, 1922.*

The undersigned, who were appointed to examine the accounts and administration of the Aktiebolaget Kreuger & Toll for the year 1921, have examined the accounts of the company and have found them to be carefully kept and accompanied by complete vouchers, while at the same time the balance sheet and the profit and loss account agree with the books.

The shares and documents of value entered in the balance sheet as assets were in the possession of the company as of December 31, 1921.

We have no objections to the suggestion of the board with regard to the disposal of the means available.

In view of the foregoing, we recommend that the board be discharged from responsibility.

G. C. A. LINDENCRONA.
ERNST BERGENSTROM.

The certificate for 1922, in translation, is as follows:

STOCKHOLM, *March 29, 1923.*

The undersigned, who were appointed to examine the accounts and administration of the Aktiebolaget Kreuger & Toll for the year 1922, have examined the accounts of the company and found them to be carefully kept and supplied with complete vouchers, while at the same time the balance sheet and profit and loss account agree with the books (accounts).

It is a satisfaction for the auditors to be able to advise the stockholders that the activity of the company which was mainly confined to a few lines, with the conditions of which the management of the company has been thoroughly acquainted for a long time, has been able to continue even after the depression without any considerable losses and with undiminished returns from its different activities.

We agree to the suggestion of the board as to the disposal of the means available, and suggest to the meeting to declare the board discharged from responsibility.

G. C. A. LINDENCRONA.
ERNST BERGENSTROM.

The type of certificate given for the years 1923 to 1926, inclusive, is illustrated by that given for 1926, which reads, in translation, as follows:

STOCKHOLM, *May, 1927.*

"The undersigned, who were appointed auditors by the stockholders' meeting for the year 1926 of the Aktiebolaget Kreuger & Toll, after completed examination of the accounts and administration of the company for the year 1926, herewith submit the following report:

'The accounts have been found to be in good order, carefully and conscientiously kept, and all the necessary vouchers have been submitted.

'The shares and documents of value contained in the balance sheet were found to be in the possession of the company at the end of the year.

'With regard to the result of the company's activities during the year 1926 we refer to the directors' report and the attached balance sheet and profit and loss account which have been found to be in accordance with the books, as a result of which we are able to recommend that the balance sheet be accepted as well as the board's suggestion for the disposal of the means available.

'In connection with the audit which has been made, we submit that the meeting declare the board discharged from responsibility for their administration during 1926."

G. C. A. LINDENCRONA.
ERNST BERGENSTROM.

The type of certificate given for the years 1927, 1928, and 1929 is illustrated by that given for 1929, which reads, in translation, as follows:

STOCKHOLM, *April, 1930.*

"The undersigned, who were appointed by the stockholders' meeting of the Aktiebolaget Kreuger & Toll for the year 1929, as auditors for the company, after completed examination of the accounts and administration of the company during the year 1929, beg to submit the following report:

'The accounts have been found in good order, carefully and conscientiously kept, and all the necessary vouchers have been submitted.

'The shares of stock and documents of value recorded in the balance sheet have been found to be in the possession of the company at the end of the year.

'With regard to the result of the company's activity during the year 1929, we refer to the directors' report and the attached balance sheet and profit-and-loss account which have been found to be in accordance with the books as a result of which we are able to recommend that the balance sheet be accepted as well as the board's suggestion for disposal of the means available.

'In connection with the audit which has been made, we submit that the meeting declare the board discharged from responsibility for their administration during 1929."

G. C. A. LINDENCRONA.
ERNST BERGENSTROM.

For the year 1930, the certificate reads, in translation, as follows:

STOCKHOLM, *April, 1931.*

"The undersigned, who were appointed to examine the accounts and administration of Aktiebolaget Kreuger & Toll for the year 1930, having completed the examination beg to submit the following report:

'The accounts have been found to be in good order, carefully and conscientiously kept and all the necessary vouchers have been available.

'We have made an inventory of the company's holding of shares, bonds, and other documents of value, which have been found perfectly in order. We have also checked the cash at bank and in hand and debts due to the company.

'With regard to the result of the company's activity during the year 1930 we refer to the directors' report and the attached balance sheet and profit and loss account which have been found to be in accordance with the books, as a result of which we are able to recommend that the balance sheet be accepted as well as the board's suggestion for disposal of the means available.

'In connection with the audit which has been made, we submit that the meeting declare the board discharged from responsibility for their administration during 1930."

G. C. A. LINDENCRONA.
ERNST BERGENSTROM.
A. WENDLER.

The annual audits of the Kreuger & Toll accounts were, I am informed, in accordance with the best Swedish practice. Swedish counsel advise that the requirements of the Swedish law were strictly complied with and the chairman of the Association of Certified Accountants of Sweden, Prof. Oscar Sillen, a Swedish accountant of high standing, to whom the Kreuger & Toll annual report for the year 1930 was submitted on March 26, 1932, certified as follows:

STOCKHOLM, *March 26, 1932.*

I, the undersigned, Oscar Sillen, am a resident of Stockholm, Sweden, and am 48 years of age. My occupation is that of a certified accountant and I am a professor at the Business College at Stockholm (Stockholms Handelshogskola) in Sweden, where I teach accounting, auditing, and business organization. I am chairman of the Association of Certified Accountants of Sweden. I am also a member of the accounting firm of Aktiebolaget Industribyran and have been engaged in the profession of accounting in Stockholm for 20 years. I have during these years regularly audited many commercial and industrial concerns in Sweden, among others Allmänna Svenska Elektriska Aktiebolaget, Aktiebolaget Sveriges Litografiska Tryckerier with 35 subsidiaries and Sandvikens Jernverks Aktiebolag and am thoroughly familiar with the practice in this country regarding the annual auditing of business concerns and the manner and form of auditors' reports in Sweden.

I have read the auditors' report of Aktiebolaget Kreuger & Toll, Stockholm, for the year 1930. In my opinion the manner and form of the said report is in accordance with the usual and accepted practice in corporations of the highest standing in Sweden.

O. SILLEN.

It is well known that in the case of the sale of the securities of many important American companies abroad, including many of our leading railroad and industrial companies, it has always been regarded as good investment and banking practice for European bankers and investors to accept the statements and audits of American companies made by their own officials or by American auditors, without requiring any audit of the accounts of those companies by English or continental auditors. During more than two generations this practice of investors and bankers abroad has been deemed reasonable and prudent. This standard of practice has been followed reciprocally in the United States. The securities of many important Eur opeancompanies have been sold in this country on the basis of accounts audited in accordance with the accepted practice of corporations in the countries where the companies were located.

The first financing for Kreuger & Toll Co. in the United States was an issue of its participating debentures (in the form of American certificates) in the fall of 1928. At that time, Lee, Higginson & Co. had known Kreuger and his companies for over five years. Ivar Kreuger himself had an established reputation as a successful business man who enjoyed the confidence of the Government and people of his own country and of leading statesmen and financiers of Europe. His building-up of the match industry was evidence of solid achievement and he

had attained added prestige through the success of such transactions as his $75,000,000 loan to the French Government in 1927, which played an important part in France's program for stabilizing the franc. He stood in the front rank of that group of leading financiers of the principal European countries whose attention has been given since the war to the problem of economic reconstruction in all its phases; and his own contribution to the solution of that problem, through his loans to many of the weaker countries, in which the match industry furnished a basis of credit when hardly any other was available, was regarded as of great constructive significance.

By 1928, Kreuger & Toll Co. was generally considered to be one of the largest and most important concerns in Sweden. Its securities had been widely known and highly regarded in Europe for a number of years prior to the time they were introduced to the American market. At the time of the participating debenture issue here the common stock of the company was listed on the stock exchanges of Stockholm, London, Paris, Amsterdam, Geneva, Lausanne, Basle, and Zurich.

Among the important banks and bankers abroad who showed confidence in the Kreuger enterprises and in Mr. Kreuger by their participation in the security issues and banking credits of the companies were Skandinaviska Kreditaktiebolaget, A. B., Svenska Handelsbanken, Stockholms Enskilda Bank, Stockholms Intecknings Garanti A. B., A. B. Goteborgs Bank, in Sweden; N. M. Rothschild & Sons, in England; Credit Lyonnais, Banque de Paris et des Pays-Bas, in France; Deutsche Bank, Berliner Handels-Gesellschaft, Commerz-und Privat Bank A. G., Darmstädter und Nationalbank, Direktion der Disconto-Gesellschaft, Dresdner Bank, Mendelssohn & Co., Reichs-Kredit-Gesellschaft A. G., Lazard, Speyer-Elissen, L. Behrens & Söhne, Simon Hirschland, M. M. Warburg & Co., A. Levy, in Germany; Hope & Co., Teixeira de Mattos Bros., in Holland; Societe de Banque Suisse, Union Financiere de Geneve, Banque Federale S. A., Banque Commerciale de Bale, Leu & Co.'s Bank Limited, Union de Banque Suisses, Banque Populaire Suisse, Pictet & Cie, in Switzerland; Societe de Belgique S. A., Mutuelle Solvay S. A., Compagnie Financiere et Industrielle de Belgique S. A., in Belgium.

In order to answer that part of your letter which deals with the purchases of Kreuger & Toll certificates by Lee, Higginson & Co. on March 12, 1932, I have endeavored to make a complete investigation of our own records as well as those of the various brokers who handled transactions in Kreuger & Toll securities for our account. Until I appeared before the committee in Washington, I had never had occasion to make any independent study of the subject of purchases of Kreuger & Toll certificates by Lee, Higginson & Co. on March 12, 1932. It does not appear that our firm was asked for information with reference to purchases at the time when Mr. Greene gave your committee certain information which you requested last June. I do not know, of course, where Mr. Benton obtained the information contained in his report which is made a part of the record on pages 2581 and 2582 in which he states: "I was informed that while Lee, Higginson did not sell on that date they also did not execute buying orders which had been received by them from their customers." While the spirit of that statement is essentially true, it is technically incorrect because there were, as I testified, executions for clients between the time the market opened and the time cancellations could be effected.

Referring again to the committee's inquiry of last June, it was my understanding that the inquiry was whether or not Lee, Higginson & Co., or any of its partners, had disposed of any of their Kreuger & Toll certificates on that day, and in answer to that we were able to state that we had not.

In order to determine as definitely as possible, the question of the time on Saturday, March 12, 1932, when we ceased to make purchases of Kreuger & Toll certificates for the account of clients, we have requested our brokers to report to us all purchase transactions in Kreuger & Toll certificates for our account on that day showing the time of the transactions. We are submitting herewith photostatic copies of such reports. [1]These reports are from the following brokers: D. T. Moore & Co.; Jenks, Gwynne & Co.; Walter J. Fahy & Co.; Clark, Dodge & Co.; Ladenburg, Thalmann & Co.; B. N. Hamlin; Watson & White; De Coppet & Doremus; Carlisle, Mellick & Co.; Jackson & Curtis; Stern, Kempner & Co.

The reason why cancellations were effected earlier in Boston than in New York was due to the fact that one of the Boston partners was directly in charge of their stock department, while in New York it was necessary for the partner here to send for the head of the trading department and explain what he wanted done.

[1] These reports are marked "Broker's transactions in Kreuger & Toll on morning of Mar. 12, 1932" and are retained in the committee files.

The head trader then had to return to his own office and reach a number of brokers by telephone.

The summary of the situation, as I read these letters, is that the only buying orders executed for customers were those which had been placed and were executed before our trader could carry out his instructions to cancel them. You understand that our trader had to complete communication with these brokers and they had to complete communication with their men on the floor of the exchange before the cancellations became completely effective. The mechanics of this took some time, but none the less, from the investigation I have made, it appears that our trader put through no purchase orders for clients in certificates which bear a time of execution later than 10.36 a. m. on Saturday morning. Any transactions after that hour were dealers' orders and not for clients.

The reason for postponing an announcement of Kreuger's death was due to the same considerations which justified the postponement of the announcement of the suicide of Mr. Riordan, the head of the County Trust Co. of New York City, and the announcement of the suicide of Mr. George Eastmen, the head of the Eastman Kodak Co.

I appreciate very much the time you have allowed me to collect the foregoing information and the data herewith submitted.

Respectfully yours,

DONALD DURANT.

AFTER RECESS

The committee resumed at 2.30 o'clock p. m. on the expiration of the recess.

The CHAIRMAN. The committee will now resume. Is Mr. Redmend here?

Mr. REDMOND. Yes; Mr. Chairman.

The CHAIRMAN. Please come forward, hold up your right hand and be sworn. You do solemnly swear that you will tell the truth, the whole truth, and nothing but the truth regarding the matter now under investigation by the committee, so help you God?

Mr. REDMOND. I do.

The CHAIRMAN. Just take a seat at the table opposite the committee reporter.

TESTIMONY OF ROLAND L. REDMOND, OF THE LAW FIRM OF CARTER, LEDYARD & MILBURN, NEW YORK CITY

(The witness was duly sworn by the chairman as shown above.)

Senator COSTIGAN. Where are the firm's offices?

Mr. REDMOND. At 41 Broad Street, New York City.

Mr. MARRINAN. You are a member of the firm of Carter, Ledyard & Milburn, is that correct?

Mr. REDMOND. Yes, sir.

Mr. MARRINAN. Have you business connections other than that professional arrangement?

Mr. REDMOND. I am a director of one or two companies, but otherwise have no other business connections.

Mr. MARRINAN. Are you a director in the Fulton Trust Co. of New York?

Mr. REDMOND. I am.

Mr. MARRINAN. Are you a director in the Transamerica Corporation?

Mr. REDMOND. I am no longer. I was.

Mr. MARRINAN. You were such a director?

Mr. REDMOND. Yes, sir.

Mr. MARRINAN. Are you identified with the law firm of Carter, Ledyard & Milburn as counsel for the New York Stock Exchange?

Mr. REDMOND. My firm has been counsel for the exchange a great many years, and I am one of the active partners in the firm.

Mr. MARRINAN. And you are frequently designated as the active counsel of the New York Stock Exchange?

Mr. REDMOND. I suppose I may be the most active member of my firm as counsel for the exchange. It is not an individual matter at all, however, as the firm are counsel.

Mr. MARRINAN. The firm are their counsel?

Mr. REDMOND. Exactly.

Mr. MARRINAN. Some years ago, Mr. Milburn, as I remember, of the firm of Carter, Ledyard & Milburn, did the most active work as counsel for the New York Stock Exchange?

Mr. REDMOND. That is true.

Mr. MARRINAN. And you appeared this year before a House committee as counsel for the New York Stock Exchange, did you not? You were at least present, I believe the testimony shows, with Mr. Whitney, and that Mr. Whitney deferred to you and introduced you as counsel, and you have an official appearance there in that capacity?

Mr. REDMOND. I suppose you are referring to the hearings before the Committee on the Judiciary?

Mr. MARRINAN. That is correct.

Mr. REDMOND. That is so. I appeared as counsel there.

Mr. MARRINAN. Didn't you have a very similar relation here before this committee? I do not recall whether you actually made the record, but you were here present as counsel for the New York Stock Exchange in the earlier part of these inquiries?

Mr. REDMOND. Well, I was present. But there was no appearance, and I think Mr. Whitney appeared without counsel, or that is true as I remember it.

Mr. MARRINAN. You mean he appeared officially without counsel?

Mr. REDMOND. Well, the witness was not represented with counsel at all.

Mr. MARRINAN. But you sat at his elbow, with all of the papers, and fed them to him while the proceedings went on, is that not true?

Mr. REDMOND. No. I did not feed papers to Mr. Whitney. I sat at his elbow. And I gave him papers when he asked for them.

Mr. MARRINAN. I say that with all respect. I did not mean to be in any way offensive. Mr. Redmond, will you please examine the document which I now pass along the table to you, and tell me whether that is, as far as you can identify it, a true copy of the so-called debenture agreement involving certain arrangements between the Kreuger & Toll Co., Lee, Higginson & Co., as fiscal agents, and the Lee, Higginson Trust Co. as trustee?

Mr. REDMOND. It is in regard to the $50,000,000 security debentures.

Mr. MARRINAN. Mr. Chairman, this is called a 5 per cent secured sinking fund gold debenture issue, and I will request that it be offered as an exhibit and inserted at this time.

The CHAIRMAN. That is a pretty large document to print.

Senator COSTIGAN. But Senator Gore particularly requested that it be made a part of the record, Mr. Chairman, and he was assured by me that it would go in.

Mr. MARRINAN. It is a rather important document, and the printing will not involve very much. It is very illuminating and interesting.

The CHAIRMAN. This is an agreement relating to substitutions, covering substitutions of stock and other matters. I say, Mr. Redmond, this is the agreement that binds the trustee as to what they are bound to do?

Mr. REDMOND. Yes.

The CHAIRMAN. Commonly called a debenture?

Mr. REDMOND. It is the debenture agreement under which the bonds were issued.

The CHAIRMAN. It will be printed in the record of our proceedings if there is no objection. The Chair hears none, and it is so ordered.

(The printed volume entitled "Debenture Agreement, dated March 1, 1929, $50,000,000 5 per cent Secured Sinking Fund Gold Debentures" and referring to the Kreuger & Toll Co. will be found at the end of the day's proceedings.)

Mr. MARRINAN. Mr. Redmond, who of counsel in the firm of Carter, Ledyard & Milburn did the actual work on the secured debenture agreement?

Mr. REDMOND. It was started, and I might explain that I have refreshed my recollection from my firm's records since I talked to you, Mr. Marrinan. When I spoke to you the other day I could not remember the details. The work on this agreement was started by my partner, Mr. Bechtel, with the members of the firm of Ropes, Gray, Boyden & Perkins of Boston, who were joint counsel with our firm representing Lee, Higginson & Co. in connection with this issue.

That was about the middle of February of 1929. My partner, Mr. Bechtel, married and sailed abroad at the end of February, and left me to supervise our end of this work. The partners of Ropes, Gray, Boyden & Perkins, and ourselves, and certain of our junior law clerks, worked on this agreement until about the 20th of March, when due to the difficulty of getting copies of this agreement abroad and into the hands of representatives of the company and counsel for the company there, we sent a draft abroad to Mr. Leon Frazer, who was formerly a partner of Ropes, Gray, Boyden & Perkins, and who undertook to represent Lee, Higginson & Co. upon the final closing of the agreement in Paris.

Senator COSTIGAN. Do you recall the date when work on the debenture began?

Mr. REDMOND. I find that a draft was made by my partner, Mr. Bechtel, in the latter part of February. I actually worked on it for the first time myself around the 4th or 5th of March, and the draft we sent abroad was sent I think or dated the 20th of March.

The CHAIRMAN. What year?

Mr. REDMOND. 1929.

Mr. MARRINAN. Am I to understand, Mr. Redmond, that this indenture then was not completed until March 20, 1929?

Mr. REDMOND. It was not put in final form—and I say this from hearsay because I was not present in Paris when it was done—until the date of execution, which was the 28th of March.

Mr. MARRINAN. Do you recall what date appears on the indenture?

Mr. REDMOND. It is dated as of the 1st of March, but it was executed, as the acknowledgements show before the vice consul of the United States in Paris, under date of the 29th of March. I believe the actual date of the signing of the indenture was the 28th of March.

Mr. MARRINAN. Were any bonds on the market prior to that date?

Mr. REDMOND. No. Interim receipts for the debentures were delivered as I remember it at the date of the execution of the instrument, or shortly before then. The issue was made on a "when issue" basis, and interim receipts were issued.

Mr. MARRINAN. Were interim receipts publicly offered prior to the completion of the debenture agreement?

Mr. REDMOND. The issue was offered publicly as I remember it around the 6th of March.

Mr. MARRINAN. That is my understanding.

Mr. REDMOND. But in the form of interim receipts.

Senator COSTIGAN. Was any explanation given of the fact that the indenture had not been completed when those interim receipts were issued?

Mr. REDMOND. Interim receipts simply recite that the holder is entitled to a bond of this issue when, as and if the bonds are issued, and if the bonds are not issued he is entitled to a return of his money, or a specified sum, which is usually set forth in the interim receipt.

Senator COSTIGAN. Nothing was said about the indenture?

Mr. REDMOND. It simply stated an indenture would be executed. I have forgotten the precise language, but perhaps I have here the circular and I can furnish it if the committee desires, in order to get the language of the interim receipt. As a matter of fact, I have it in Washington, but not in the room with me at this moment.

Senator COSTIGAN. Your testimony in the case is that the purchaser of a bond in that interim period was not aware of the precise conditions covering the securities behind the indenture. Is that a fact?

Mr. REDMOND. He was informed, Senator Costigan, by reason of the offering circular, which specified the provisions that were to be incorporated in the indenture.

Senator COSTIGAN. Among those specifications is there reference to the substitution clause?

Mr. REDMOND. There is.

Senator COSTIGAN. Will you read it?

Mr. REDMOND. After reciting the security there appears the following:

The secured debentures will be the direct obligation of Kreuger & Toll Co. and will be secured by pledge, under a debenture agreement, of securities of the following character:

(*a*) Bonds or notes issued or guaranteed by any sovereign state or any political subdivision thereof including any municipality, having authority to issue or guarantee bonds or notes and having a population in excess of 300,000.

(*b*) Bonds or notes issued or guaranteed by mortgage banking institutions or societies (in which the company may but need not have an interest) and secured by mortgages on agricultural or city property or entitled by special law to priority on such property.

(*c*) Shares in railway or other companies on which dividends at a minimum rate are guaranteed by any sovereign state.

Securities pledged will have a total par value equivalent to not less than 120 per cent of the $50,000,000 par value secured debentures now to be issued, and an annual income (at rates of interest and guaranteed dividends currently payable thereon) equivalent to not less than 120 per cent of the $2,500,000 annual requirement for interest on the secured debentures.

For a list of securities so to be pledged and provisions of the debenture agreement regarding issuance of additional secured debentures (in unlimited amount) and withdrawal and substitution of pledged securities, reference is made to the accompanying letter.

Which appear on the folder but on the inside.

Senator COSTIGAN. From what have you just read?

Mr. REDMOND. I have read from the first page of the circular, which contains, unless I am mistaken, substantially the same thing as appears in the advertisement which was put in the record this morning. And then the circular provides, on the second page:

> The debenture agreement will permit withdrawal of pledged securities provided that such withdrawal does not impair the above ratios, and will permit substitution of securities of the required character for securities pledged provided the above ratios (or the ratios existing prior to such substitution if, prior to such substitution, the ratios were less than 120 per cent) are not impaired. These provisions are, however, subject to the condition that any part of the pledged securities may be withdrawn upon substitution of cash in an amount equivalent to that proportion of the principal amount of outstanding secured debentures which the par value of securities withdrawn bears to the total par value of securities pledged at the time of such withdrawal.

Senator COSTIGAN. Mr. Redmond, if you had read the paragraph which you have just read to us, not as a member of the bar with technical equipment but as an average investor, wouldn't you have concluded that the substitution was to be of securities equal not merely in par value but in actual value to the original securities?

Mr. REDMOND. I do not think so, Senator Costigan. It is clearly stated that the security is a ratio of 120 per cent in par value; and where substitution is permitted it provides that it may be made, provided that the ratio, which is dependent upon par value, is not impaired.

Senator COSTIGAN. I submit that by way of technical construction what you say has force. But I also ask you on reconsideration to state whether or not in your judgment the ordinary investor would not be inclined to infer that his security would never be impaired by such substitution.

Mr. REDMOND. Impaired, may I ask, by what?

Senator COSTIGAN. Impaired in actual value.

Mr. REDMOND. There was no means by which the ordinary investor could determine the actual value of the securities originally pledged.

Senator COSTIGAN. Perhaps that fact does enter and give additional complication to a difficult situation. But it is not pertinent to my particular inquiry. You may proceed, Mr. Marrinan.

Mr. MARRINAN. Mr. Redmond, we were discussing the part which you personally played in the drafting of this indenture. As I take it you took hold of the matter about the 6th of March, and you participated in the various discussions which proceeded from that day on and terminated in its final approval in so far as counsel were concerned about the 20th of March; is that correct?

Mr. REDMOND. Substantially so; yes.

Mr. MARRINAN. All that I wish to develop here is that you had ample opportunity to familiarize yourself with all of its details.

Mr. REDMOND. What do you refer to when you say "its"?

Mr. MARRINAN. All the details of the indenture.

Mr. REDMOND. Yes.

Mr. MARRINAN. The indenture only I have in mind.

Mr. REDMOND. Yes.

Mr. MARRINAN. I am not trying to split hairs with you. I would not feel qualified to do that, Mr. Redmond. Now, is it customary to refer a draft of such contracts or agreements to law clerks in large

law offices and have them do most of the preliminary, shall we say work in the formulation of such contracts or agreements?

Mr. REDMOND. I am afraid I can not testify as to the custom among other firms.

Mr. MARRINAN. That is not the practice in your office, then?

Mr. REDMOND. It is not the practice in my office.

Mr. MARRINAN. Could you disclose without divulging professional secrets what a company might usually pay as a charge for the preparation and approval of an indenture of the general character of the one here under examination?

Mr. REDMOND. I am afraid——

Mr. MARRINAN (continuing). I do not mean to pin you down to this transaction, but mean for you to give us general information.

Mr. REDMOND. I have no general knowledge, but I am perfectly willing to testify to anything in which my firm has been involved.

Mr. MARRINAN. I do not think I care to press you on that particular.

Senator COSTIGAN. Presumably there is no objection to you stating what the fee was that your firm charged for the preparation of this indenture.

Mr. REDMOND. Unless my memory fails to serve me, for our work in connection with the issue a bill of $20,000 was submitted, to which subsequently Mr. Kreuger voluntarily made an additional payment of $5,000, which compensation he thought my firm was entitled to, or $25,000.

Senator COSTIGAN. All right. Proceed, Mr. Marrinan.

Mr. MARRINAN. Mr. Redmond, you say that your fee in this instance was a total of $25,000. Is this fee based on professional services alone, or does it take into account the use of the firm's name in advertising the issue?

Mr. REDMOND. It is for professional services alone.

Mr. MARRINAN. You are quite sure of that?

Mr. REDMOND. I am positive.

Mr. MARRINAN. In so far as your firm is concerned you are sure, but you are not sure of the item with respect to the gentleman who paid the fee?

Mr. REDMOND. You asked me the question as to whether the use of my firm's name was paid for in this case, and my answer is no.

Mr. MARRINAN. No, I did not say that. Let the committee reporter read that to you again. [Which was done.] Now, you can't throw any additional light on that matter?

Mr. REDMOND. The charge of my firm was for professional services rendered. I can not tell you whether there was any motive in the mind of the man who paid my firm's fees other than to pay for what had been done.

The CHAIRMAN. But all this advertising matter does carry your firm's name.

Mr. REDMOND. No, they do not.

The CHAIRMAN. This particular one referred to here does.

Mr. REDMOND. That one does.

The CHAIRMAN. And this is the first one that advertised the bond issue.

Mr. REDMOND. This particular issue; yes.

Mr. MARRINAN. I do not wish to press this matter to undue length. But you have a bill here for professional services, $20,000. And then

you have, shall we say, a voluntary payment from Ivar Kreuger of $5,000?

Mr. REDMOND. That is true.

Mr. MARRINAN. Can you express any opinion as to whether Mr. Kreuger in volunteering the additional $5,000 was animated by his regard for your professional services, or whether he thought the use of your firm's name was worth $5,000 more to him?

Mr. REDMOND. I can not look into Mr. Kreuger's mind. I can tell you what I believe was the case or the cause of that payment if the committee wishes to know it.

Mr. MARRINAN. We would like to have your impression in the matter.

Mr. REDMOND. Well, the charge of my firm in this instance was made in relation to the fact that we had joint counsel—that is, Ropes, Gray, Boyden & Perkins, as well as Carter, Ledyard & Milburn —and furthermore additional counsel bills abroad. So that the aggregate counsel bills would be very substantial in regard to the size of the issue. We therefore very deliberately made our charge lower than the charge I assume would be customarily made for a $50,000,000 bond isue.

The CHAIRMAN. Mr. Kreuger was evidently quite satisfied with your work here in the United States?

Mr. REDMOND. I think it was the volume of the work that he had knowledge of which we did, and that he thought we were entitled to higher compensation.

Senator COSTIGAN. Did you confer with Mr. Kreuger before the indenture was prepared?

Mr. REDMOND. Not at all. Mr. Kreuger was then in Sweden.

Senator COSTIGAN. How did the contents of the indenture reach you?

Mr. REDMOND. The basis or terms under which the debentures were to be offered to the public had been agreed upon between the bankers and the company. And it was our task then to draw an indenture that would carry out those terms.

Senator COSTIGAN. Did the substitution clause originate in your office or elsewhere?

Mr. REDMOND. No; it originated between the bankers and the company.

Senator COSTIGAN. I believe it was testified this morning that it originated with Mr. Kreuger. Do you know whether that is a fact?

Mr. REDMOND. I have no absolute knowledge of the subject. I know the precise form of the substitution clause as it is in the indenture now did not wholly originate with Mr. Kreuger because there were certain changes which we thought ought to be made and we insisted on having incorporated.

Senator COSTIGAN. Did you on any prior occasion prepare anything corresponding to this substitution clause?

Mr. REDMOND. Do you mean me personally?

Senator COSTIGAN. In any legal document that you drew.

Mr. REDMOND. I personally? No, Senator Costigan.

Senator COSTIGAN. Were you aware of any such substitution clause in other legal agreements prior to the preparation of this particular clause?

Mr. REDMOND. I know of no identical substitution clause.

Senator COSTIGAN. In other words, you pioneered in this field so far as you decided on the forms and precedents employed?

Mr. REDMOND. Well, Senator Costigan, I think if I am going to draw an indenture I will make it my own instrument, and not simply a copy of anybody else's form.

Senator COSTIGAN. To be sure, but you are not unwilling to consult accepted forms, are you?

Mr. REDMOND. I do not know of any accepted form for a large bond issue.

Senator COSTIGAN. Do you know of any form for a substitution clause? It is to that I refer.

Mr. REDMOND. No. I think every substitution clause is drawn to fit a particular case. We drew this substitution clause to fit the facts of this case.

Mr. MARRINAN. Mr. Redmond, am I correct in the impression that the law firm of Ropes, Gray, Boyden & Perkins, which collaborated with you in this work, is one professionally equally distinguished with the firm of which you are an able member?

Mr. REDMOND. I would say it is one of the outstanding firms of Boston.

Mr. MARRINAN. Mr. Perkins, who is a member of that firm, is Thomas Nelson Perkins, is that correct?

Mr. REDMOND. I believe so.

Mr. MARRINAN. Thomas Nelson Perkins is also a director in the Lee, Higginson Trust Co., is he not?

Mr. REDMOND. I do not know.

Mr. MARRINAN. I might say that all the standard investment manuals, and Poor's Register, and so forth, show Mr. Thomas Nelson Perkins as a director of the Lee, Higginson Trust Co. in 1929, during the time that this indenture was drafted, and I believe he is as of this date as well.

Now, Mr. Redmond, we have this situation, and correct me if I am in error: You are a member of a firm which acted in this instance for Lee, Higginson & Co., and the Kreuger & Toll Co., in the drafting of the indenture. You are also a member of a firm which is counsel for the New York Stock Exchange. In Boston there is another firm of equal professional place, and a member of that firm was also a director in the Lee, Higginson Trust Co., which is named as the trustee of this issue; is that correct?

Mr. REDMOND. No.

Mr. MARRINAN. In what way is it incorrect?

Mr. REDMOND. My firm, Carter, Ledyard & Milburn, acted as counsel for Lee, Higginson & Co. and not as counsel to the Kreuger & Toll Co. The Kreuger Toll Co. was represented by a Swedish lawyer whose name I believe was Ivar Engellau, of Stockholm, Sweden.

Mr. MARRINAN. And that is the only error in my statement?

Mr. REDMOND. Still it is fairly fundamental.

Mr. MARRINAN. Is the Lee, Higginson Trust Co. of Boston the sole trustee in this issue?

Mr. REDMOND. I do not know.

Mr. MARRINAN. They were at the time you drafted the agreement?

Mr. REDMOND. They were, under the agreement.

Mr. MARRINAN. Do you know whether there is any truth in a report that Thomas Nelson Perkins was nominated by the State

Department, and I merely ask you now whether you have knowledge, to conduct certain negotiations with foreign governments growing out of such situations as the existing Kreuger & Toll difficulty?

Mr. REDMOND. I have no knowledge.

Mr. MARRINAN. You have no knowledge of that?

Mr. REDMOND. No.

Mr. MARRINAN. Will you explain to the committee what your impression may be of what constitutes the limits of the moral responsibility imposed upon a lawyer—and I will have this repeated if it is too long—towards his client in such a situation as is presented in the approval of this indenture?

Mr. REDMOND. I may not have understood your question.

Mr. MARRINAN. One moment. Will the committee reporter please repeat the question. I do not want any misunderstanding about it but want to start out right in propounding the question. [The question was read.]

Mr. REDMOND. I should think that the moral responsibility of a lawyer was to see that the indenture was drawn so as to carry out the arrangements that had been made between his clients, or in this case Lee, Higginson & Co., and the Kreuger-Toll Co., in regard to the issuance of those debentures.

Senator COSTIGAN. Was there no moral responsibility to the public, in your judgment?

Mr. REDMOND. I think, Senator Costigan, you are asking me a different question now, aren't you? I was asked what my moral responsibility was to my client, and my client was Lee, Higginson & Co.

Senator COSTIGAN. Will you be good enough to answer it, even if it is a different question?

Mr. REDMOND. As to the public generally?

Senator COSTIGAN. Yes.

Mr. REDMOND. I think that any law firm of standing should see that the indenture created a legal obligation, and that the securities issued under the agreement complied strictly with what was offered to the public, so that the public would not be misled.

Mr. MARRINAN. Now, to return to that question. I deliberately placed the question on the basis of the obligation or relationship between you and your client. Do you think it reasonable to inquire, I will put the question in that way, whether you ought to have anticipated your client's responsibility to the public in such a situation as this, and deported yourself professionally in such a manner as would comprehend a responsiveness of your client toward the public?

Mr. REDMOND. I am frankly confused by your question.

Mr. MARRINAN. Well, let me split it up. The bankers involved in offering securities, I think you will agree, have some responsibility to the public.

Mr. REDMOND. Well, let us define that responsibility.

Mr. MARRINAN. No sir. I want you——

Mr. REDMOND (continuing). We can not use a vague term like "responsibility" without defining it.

Mr. MARRINAN. No sir. Answer as to some responsibilities to the public.

Mr. REDMOND. I feel they have the responsibility of offering to the public securities——

Mr. MARRINAN (interposing). How much consideration did you give to that question in the formulation of this indenture?

Mr. REDMOND. According to my recollection—and you must let me answer that question fully or not at all, and in order to do so properly I am going to define, first, what I feel the responsibility is in answering your question.

Senator COSTIGAN. The committee desires to hear you fully.

Mr. REDMOND. I feel that the responsibility of a banker offering securities to the public is to see that the securities are genuine securities, that the nature of the rights of the company and the purchasers of those securities is clearly set forth in the offering circular or advertisement, and that they have confidence in the soundness of the enterprise, whether that confidence is generated by long series of dealing, reliance on accountants' reports or expert reports, or some other ground. And if they are reasonably assured of the soundness of the enterprise I think they are justified in offering the securities if they fulfill other requirements.

Senator COSTIGAN. Do you mean to imply that on consideration of the entire Kreuger & Toll transaction the public was not misled as to the nature of the securities behind the indenture?

Mr. REDMOND. I do not think they were, sir. And let me say further in that connection, that at the time this debenture issue was brought out the credit of Kreuger & Toll was so great throughout the world that I fancy the issue could have been brought out whether or not there had been any collateral bonds behind the debenture issue.

Senator COSTIGAN. May I ask you whether the credit of Lee, Higginson & Co. was not also of such a nature as to warrant acceptance of the debentures offered by them largely upon their reputation?

Mr. REDMOND. I do not think so. I think the success or failure of any issue of securities depends not solely upon the name of the sponsoring banker but upon the merits of the issue and the merits of the issuing company.

Senator COSTIGAN. Is it your idea that the name of Lee, Higginson & Co. was not a factor in the public credit given to the Kreuger & Toll issue?

Mr. REDMOND. A factor, yes, but not a controlling factor.

Senator COSTIGAN. How large a factor was it?

Mr. REDMOND. I am afraid there is no way in which I could estimate it more nearly than to say that I do not think it was the controlling or dominating factor.

Senator COSTIGAN. There is no doubt that great public credit attached at that time to Lee, Higginson & Co.

Mr. REDMOND. But much greater credit attached to Kreuger, and any number of banking houses might equally well have brought out the Kreuger & Toll issue.

Senator COSTIGAN. Admitting the union of those two factors in creating public credit, are you disposed to think that the public was duly advised of the nature of the substitution clause in its bearing on the intrinsic value of the securities offered?

Mr. REDMOND. I think the nature of the substitution clause was as clearly expressed as could be done. What bearing it might have had on what you call intrinsic worth I could not really undertake to say.

Mr. MARRINAN. I take it, Mr. Redmond, that there was no special consideration given to the question of moral responsibility as we here

would understand that word, not perhaps with quite the precision that a lawyer might understand it, in the question of substitution or eligibility or interchange or conversion of collateral at par value; moral responsibility did not enter very much into your consideration of these points in the indenture.

Mr. REDMOND. You have remarked upon moral considerations as you understood them and as lawyers probably do not. But let us take up the separate things you have referred to. There has been reference here this morning as to the looseness of these various clauses. Actually these clauses are very much tighter than most people think, and——

The CHAIRMAN (interposing). But they did not prevent the substitution or the putting in of poor paper for good.

Mr. REDMOND. Yes, they did. And reference was made here this morning to a suppositious case of a Chinese bandit who might issue obligations eligible for deposit if there was a population of over 300,000 in the territory that he might be at the time controlling. The substitution clause sets forth: "Bonds or notes issued or guaranteed by any sovereign State." Now, that does not refer to a bandit chief.

The CHAIRMAN. It was also admitted this morning that French bonds that were valuable were taken out in the substitution.

Mr. REDMOND. Do you mean French bonds that are to-day valuable were taken out?

The CHAIRMAN. Yes.

Mr. REDMOND. Value is a question of time.

The CHAIRMAN. Exactly so. And time has shown there wasn't any value in what is left.

Mr. REDMOND. In 1922 those very French bonds would not have been as valuable as other bonds substituted.

The CHAIRMAN. Those were not sold in 1922.

Mr. REDMOND. But we are talking as of the time.

Senator BLAINE. When were the French bonds taken out?

Mr. REDMOND. I have not that date but it is in the record.

Mr. MARRINAN. January 23, 1930, I believe.

Senator COSTIGAN. Mr. Redmond, in an article in the Nation of May 25, 1932, I find these statements, which I assume are based upon accurate quotations. At least the article is of interest:

> In this connection, it is of interest to quote from an article in the Svenska Dagbladet, written by Gustav Cassel, the renowned economist. Professor Cassel says:
>
> "When such firms as Lee, Higginson & Co. placed their names under Kreuger emissions, it was natural that we in Sweden imagined that they had carefully examined the firm's position and that they exercised reliable and thorough supervision over its leadership. In this we have been deceived. If abroad at this moment we are held responsible to a large degree for the Kreuger fiasco, we too, to a lesser degree, may hold foreign interests responsible. * * * Year after year they have given Kreuger & Toll tremendous moral backing without bothering to test the firm's position. Responsibility for this lies with these people, not with Sweden."

Have you any comment to make on that charge of responsibility resting on Lee, Higginson & Co., and presumably indirectly on yourself?

Mr. REDMOND. Senator Costigan, I am hardly qualified to answer that, because whatever my responsibility may be in this case, certainly I have not given credit to Kreuger himself. All that I have done is

to pass upon a certain indenture of the Kreuger & Toll Co. I hesitate to comment upon an article of that kind. It is rather outside my field.

Senator COSTIGAN. You have, however, been commenting upon the moral responsibility in this field.

Mr. REDMOND. When I was questioned upon it, yes.

Senator COSTIGAN. My question is directed to that moral responsibility.

Mr. REDMOND. If you want my personal reaction to that article it is this: Kreuger & Toll is a Swedish company. Its start was in Sweden. It grew and became a large enterprise. It sought capital outside, representing that it was a successful Swedish company, whose affairs had been conducted as required by the Swedish law, and its credit was built up by a series of very spectacular and successful transactions. The part of American bankers, or of American investors, in giving further credit to Kreuger, was originally based upon the credit which Sweden itself had placed upon him.

Senator COSTIGAN. Pictured as this story is, the committee is primarily interested in the safeguards thrown around the public in the Kreuger & Toll transactions, and the safeguards which ought to be thrown hereafter around such developments—I mean around similar sales of securities. From that viewpoint have you any suggestions to make to the committee?

Mr. REDMOND. Senator Costigan, before answering simply in the negative may I point out to the committee the reason for my conclusion?

Senator COSTIGAN. Yes.

Mr. REDMOND. It is assumed, of course, that safeguards are necessary because this present issue is selling at a low price. This issue was predicated, first, upon the general reputation of the assets and business of Kreuger & Toll. And in addition it had a security at the time which was worth 120 per cent at par in securities that were on a gold basis, or at par of exchange for American dollars. The company's credit has disappeared because it has been discovered that the most important head of this company was dishonest. Now, there is no rule or regulation that I know of that can guard against dishonesty in high places. That to my mind has been the fundamental cause of the collapse of the Kreuger enterprises. As far as the decline in value of the collateral back of this issue is concerned, that I think, as Mr. Durant pointed out this morning, is largely due to the difficulty of the transfer of funds from the debtor countries to the United States. It is not that these issues are valueless, or that these governments won't ultimately meet their obligations.

Senator COSTIGAN. Mr. Durant so testified with respect to Hungary. Does that testimony hold good with regard to Yugoslavia?

Mr. REDMOND. I believe Yugoslavia is also off the gold basis.

Senator COSTIGAN. Has Yugoslavia prevented the exportation of capital, or the payments of interest?

Mr. REDMOND. I believe they have defaulted in the payment of their obligations.

Senator COSTIGAN. Have they defaulted?

Mr. REDMOND. Yes.

Senator COSTIGAN. Mr. Durant's testimony was to the effect that Hungary had not defaulted but that payments were held in Hungary, if I understood him correctly, and may not at this time be passed beyond the borders of Hungary.

Mr. REDMOND. Possibly I am a little too technical, but as I remember it the Hungarian obligations are dollar obligations. Therefore I think it would have to be considered a default, a failure to pay in dollars in accordance with the terms of the bonds. I know that Hungary has set up a method of interior exchange, which they credit in a blocked account, but I personally think that nevertheless would be a default in any obligation calling for American dollars.

Senator COSTIGAN. It has been publicly reported that when French and other bonds of considerable value were withdrawn, more Yugoslavia bonds were deposited, and that they had no market value. Do you know whether that is a fact?

Mr. REDMOND. I do not know.

Senator COSTIGAN. If it is true, then the substitution permitted the replacing of bonds of substantial value with bonds of a lesser value.

Mr. REDMOND. Marketwise, yes.

Senator COSTIGAN. And legally it was true, was it not, that any substitution, which met the general conditions you have read to the committee, would suffice.

Mr. REDMOND. Senator Costigan, I have read to you only a brief statement of those conditions which appear in the prospectus. I think that the indenture itself deserves a study if we are to understand the nature of that substitution clause.

Senator COSTIGAN. Is there any clause in the indenture which preserved the actual value of the substituted bonds rather than the par value?

Mr. REDMOND. No. The whole indenture was set up upon the basis of par value.

Senator COSTIGAN. Is there any other clause in the indenture which this committee ought to be advised about which protects investors with respect to substituted securities?

Mr. REDMOND. Oh, yes; I think there is.

Senator COSTIGAN. Will you read it to the committee?

Mr. REDMOND. I will read the clause gladly, but I think an explanation might be more understandable. This is rather legal jargon, if you please.

Senator COSTIGAN. You may read and explain, or explain without reading, whichever you prefer.

Mr. REDMOND. Suppose I explain, and then refer to any of the papers if necessary.

Senator COSTIGAN. Very good.

Mr. REDMOND. The basis controlling the substitution clause was with reference to applying the ratio of par value and the ratio of income, so that both factors have to be considered in order to determine the effect of the substitution clause. I have heard it said that bonds in default might be substituted herein. That is so, strictly speaking, when you speak only of the terms defining the ratio of principal. But such defaulted bonds would not be possible of substitution except to increase the protection of the debenture holders, without giving any corresponding benefit to the company, because they would not add to the ratio of income, and the ratio of income had also to be maintained.

Furthermore——

Senator COSTIGAN (interposing). None the less a default in substituted bonds might occur speedily after the substitution.

Mr. REDMOND. In just the way a default might occur in bonds which were already under the debenture.

Senator COSTIGAN. Your argument impresses me, but perhaps I am wrong in viewing it, as technical. You do not mean by the last observation to imply that the Yugoslavian bonds which were substitued were equal in value to the French bonds which were withdrawn, do you?

Mr. REDMOND. I do not know when the substitution was made, or the rate of the coupons attached to the bonds, but there have been times, and many times, when a bond with a 7 per cent coupon of a comparatively small country would have had a larger value than the French 3 per cent bonds.

Senator COSTIGAN. You are making a theoretical argument rather than basing it upon the actual facts.

Mr. REDMOND. I do not know the facts about that.

Senator COSTIGAN. Very well. Proceed, Mr. Marrinan.

Mr. MARRINAN. Mr. Redmond, were you consulted as counsel in the various substitutions which were made under the substitution provisions of this indenture?

Mr. REDMOND. No. Substitutions were made between the company and the trustee. My firm has never acted for the trustee.

Mr. MARRINAN. What firm acted for the trustee?

Mr. REDMOND. I think Ropes, Gray, Boyden & Perkins, but that would be subject to verification.

Mr. MARRINAN. That would mean the firm of which Mr. Perkins is a member?

Mr. REDMOND. I believe so.

Mr. MARRINAN. Do you regard this issue as a bond issue, Mr. Redmond?

Mr. REDMOND. Technically they are bonds. That is, they are instruments under seal. But they were offered to the public as secured debentures.

Mr. MARRINAN. What is the difference from the layman's viewpoint, if you can translate a professional opinion into such terms, between a bond and a secured debenture?

Mr. REDMOND. I do not know that I can translate it when you deprive me of the benefit of having any intelligence. You say "from the layman's point of view," and then are asking me to translate technical terms. I can tell you what the difference is.

Mr. MARRINAN. Proceed in your own way.

Mr. REDMOND. The term "debenture" means normally an unsecured obligation. It comes from the Latin, simply "I owe" and is used in Europe, where there are debentures often in the form of stock, and even debenture shares. A bond, classically, is a formal instrument attached to which there would be a penalty in event of failure, and from that we have come to our mortgage bond. So that in this country the term "bond" is usually associated with a mortgage bond. We used the English term "debenture" to indicate an obligation of a lesser rank.

Mr. MARRINAN. You say that the term "debenture" carries the idea with it of an unsecured obligation?

Mr. REDMOND. Classically, a debenture is unsecured.

Mr. MARRINAN. Then you call this particular issue a secured debenture. How do you reconcile that terminology?

Mr. REDMOND. Because, as I say, in this country we use the term inexactly. For instance, General Motors a few years ago had debenture preferred stock. Preferred stock is not an obligation, but it was attached to it.

Mr. MARRINAN. I have been told, perhaps somewhat cynically, that the term "secured debenture" is a lawyer's device to convey the idea of a bond while avoiding some of the legal responsibility involved in a bond issue. Is there anything in that?

Mr. REDMOND. Not to my knowledge. The term, I think, was used because it expressed more exactly than anything else the nature of this obligation.

Mr. MARRINAN. Let us take the specific description of this issue. That was called a 5 per cent secured sinking-fund gold debenture. Would you say in the light of all we know now that that particular description appears more like advertising copy than a true legal or even a banking description of the issue?

Mr. REDMOND. Oh, I think it is still an exact description of the nature of the obligation. It was secured. It was a debenture. There was a sinking fund. And they were payable in gold.

Mr. MARRINAN. Mr. Redmond, do you know whether this particular debenture agreement was ever registered or otherwise passed upon under the British companies act?

Mr. REDMOND. I do not know. I do not think so, because Kreuger & Toll are a Swedish company, and therefore there would be no particular reason for registering it under the British companies act.

Mr. MARRINAN. Do you think it would qualify from your knowledge of the British companies act?

Mr. REDMOND. I can not undertake to express any opinion in regard to British law. I have enough trouble studying the laws of the State of New York and of the United States.

Mr. MARRINAN. In handling this matter of the debenture agreement were you professionally engaged with a single client, Lee, Higginson & Co., or did you have a dual responsibility, partly in behalf also of the New York Stock Exchange?

Mr. REDMOND. I was not representing the New York Stock Exchange in regard to the issue, and was not consulted by them about it whatsoever.

Mr. MARRINAN. You have already answered the next question that I was going to ask you. Would it have been possible for you to have professionally represented Lee, Higginson & Co. and the New York Stock Exchange in these matters?

Mr. REDMOND. Only if both of my clients were willing to consent to such an arrangement I might say in explanation, that my firm has, over a period of years, on account of our connection as counsel for the exchange, more or less avoided acting for companies or bankers in connection with the issue of securities. We have acted in a few cases, but if any conflict of interest ever appears I go to the exchange and say to them that they are free of course to have other counsel, or if they prefer it I will cease to act for the other client and will represent them.

Mr. MARRINAN. Are conflicts of interest which arise, for the most part, conflicts of interest between the exchange and banking institutions, or have you in mind questions that involve the public?

Mr. REDMOND. I was thinking more of questions where there would be a real difference of opinion as to the propriety, let me say, of some

accounting practice, when the company for some reason or other might feel that a certain policy was justified, and the committee of the exchange might feel that it was not.

Mr. MARRINAN. Where in this general picture as we have developed it so far does the investor or shareholder or bondholder have the benefit of counsel prior to the organization of creditor committees?

Mr. REDMOND. Well, I should say that the investor has the benefit of counsel, in that he has the efforts of counsel for the bankers to make sure that the securities that are issued are exactly as described in the circular. In other words, the investor knows from the circular what he is buying.

Mr. MARRINAN. Then all that proceeds on the "buyer beware" basis.

Mr. REDMOND. Not at all. It is not buyer beware. It is a full disclosure being made. The investor can then determine whether he wishes to buy the bond.

Mr. MARRINAN. Doesn't that presume that the investor has a great deal more technical knowledge than he usually has?

Mr. REDMOND. I do not think so.

Mr. MARRINAN. That is all.

The CHAIRMAN. Mr. Redmond, you will be excused, subject to the subpœna for further notice.

Mr. REDMOND. Might I ask whether it would be proper for me to return to New York to-night because I have made an engagement which I should like to keep.

The CHAIRMAN. Yes; you may go for the present.

(Thereupon the witness was excused for the present.)

The CHAIRMAN. The next witness is A. D. Berning.

You do solemnly swear that you will tell the truth, the whole truth, and nothing but the truth, regarding the matter now under investigation by the committee, so help you God.

Mr. BERNING. I do.

TESTIMONY OF A. D. BERNING, OF THE FIRM OF ERNST & ERNST, PUBLIC ACCOUNTANTS, NEW YORK CITY

(The witness was duly sworn by the chairman, as shown above.)

Mr. MARRINAN. Mr. Berning, you are associated with the firm of Ernst & Ernst?

Mr. BERNING. Yes, sir.

Mr. MARRINAN. Public accountants; is that correct?

Mr. BERNING. Yes, sir.

Mr. MARRINAN. What companies in the general Kreuger & Toll set-up has the firm of Ernst & Ernst audited?

Mr. BERNING. Through all these various years, or are you speaking any particular time?

Mr. MARRINAN. Well, let us say, since this issue was publicly offered, which would be 1929.

Mr. BERNING. International Match Corporation, Swedish-American Investment Corporation, Vulcan Match Co. There were several companies that were later to be acquired, including New Hampshire Match Co., the Union Match Co., the Federal Match Co., and there may be some other smaller ones.

Mr. MARRINAN. Did you ever, Mr. Berning, engage in an audit of the Kreuger & Toll Co. itself, the parent company?

Mr. BERNING. No, sir.

Mr. MARRINAN. So far as you know was any such audit made of the Kreuger & Toll Co. prior to the suicide of Mr. Kreuger?

Mr. BERNING. According to the printed annual reports of the company that I have seen there were audits made by so-called elected auditors of the company, and some of the years I noticed on the foreign edition of such reports a certificate representing an audit—an auditor's certificate signed by a man whom I understand is an independent accountant.

The CHAIRMAN. That was the audit ordered by the stockholders?

Mr. BERNING. Yes, sir; I believe so.

The CHAIRMAN. In other words, that was Mr. Toll or Mr. Kreuger auditing himself, and some one certifying to that effect?

Mr. BERNING. No, I am sure one of the men was an independent accountant. The certificate of a Swedish accountant.

The CHAIRMAN. He was selected by what interests?

Mr. BERNING. Selected by the shareholders or the management, I am not sure, but I believe it was by the shareholders.

Mr. MARRINAN. In the audits of International Match Co. that you have handled, has the emphasis been placed upon the financial condition of the company or upon its earning condition?

Mr. BERNING. In so far as our examinations are concerned?

Mr. MARRINAN. Yes, sir.

Mr. BERNING. I do not think there was any particular emphasis on either one, Mr. Marrinan.

Mr. MARRINAN. Under the existing circumstances is it usual for firms in accountancy to give unqualified certificates as to earnings?

Mr. BERNING. Where the scope of the work covers an examination of the books sufficient to audit earnings accounts no qualified certificate is given.

Mr. MARRINAN. Where qualified statements are rendered what is the usual nature of the qualification and its purpose?

Mr. BERNING. Well, the kinds of qualifications are quite numerous and fit the various needs of the particular case. The purpose is naturally to put the reader on notice that the work did not include certain verification.

Mr. MARRINAN. In American practice to whom is the accountant or auditor usually answerable? To the company or to the shareholders?

Mr. BERNING. Usually to the company, the management or the directors.

Mr. MARRINAN. May I ask if you have knowledge of the comparable situation under the British companies act?

Mr. BERNING. I have read a number of things about that; yes, sir.

Mr. MARRINAN. Where is that answerability under the provisions of that act?

Mr. BERNING. The auditors in England are elected by shareholders, and I believe are responsible to them.

Mr. MARRINAN. Is it the American practice to accept audits from a holding company without actual backing in the form of other audits from subsidiaries?

Mr. BERNING. I did not understand that question. May I have that question again?

Mr. MARRINAN. I do not believe I put it very clearly. In auditing an American holding company would you bring in also as a matter of usual form an audit also of all its subsidiaries?

Mr. BERNING. It could be done; yes, sir.

Mr. MARRINAN. It could be done, but is it usually done?

Mr. BERNING. Quite often, I believe.

Mr. MARRINAN. In American practice?

Mr. BERNING. Yes.

Mr. MARRINAN. In the audit of the International Match Corporation you audited the American company, but you found it necessary, for certain doubtless controlling reasons, to merely make a qualified statement of opinion as to the audits of subsidiaries; am I correct?

Mr. BERNING. With regard to the foreign subsidiaries, yes, sir.

Mr. MARRINAN. As a matter of assisting the committee to an understanding of this auditing situation, I wish to ask you for a professional opinion on a few matters. I do not wish to embarrass you in a business way, and if you find it difficult to answer the questions no onus will be imposed upon you if you will so state.

Have professional standards in accountancy reached a stage of development generally in the United States which would support an immediate requirement for independent audits in connection with all marketed public issues?

Mr. BERNING. Would you mind reading that question to me again?

Mr. MARRINAN. Read it, Mr. Reporter.

(The last portion of the question above recorded was read by the reporter.)

Mr. BERNING. I believe it is.

Senator COSTIGAN. You refer now to legal requirements?

Mr. MARRINAN. Any requirements that there might be, yes.

Senator COSTIGAN. Imposed by the stock exchange?

Mr. MARRINAN. Imposed by the stock exchange or imposed by——

Senator COSTIGAN. By law.

Mr. MARRINAN. Is the form of certification to Ernst & Ernst audit of the financial condition of the International Match Corporation the usual form employed, or is that just a special form of certification employed to cover that special situation?

Mr. BERNING. The certificate attached to that report—that statement is naturally a certificate to cover that particular situation.

Mr. MARRINAN. That particular form of certification then would not have any broad application in accountancy?

Mr. BERNING. Not necessarily; no, sir.

Mr. MARRINAN. Well, not necessarily, I understand that——

Mr. BERNING. I may add excepting in cases where it is not necessary, then such a qualification would not be added.

Mr. MARRINAN. There were some variations in the wording of that certificate in the various years going back as far as 1927 and coming forward. In your certificate for the year 1930, the annual report on the International Match Corporation for the year ended December 31, 1930, there is appended to that certificate:

> In January, 1931, the corporation issued $50,000,000 10-year 5 per cent convertible gold debentures, in connection with which the authorized participating preference stock was increased to 2,500,000 shares.

Is it customary to make such a statement in an auditing certificate?

Mr. BERNING. In cases where important transactions have transpired so quickly following the close of the fiscal year it is customary to make reference to it.

Mr. MARRINAN. Then there is no basis for the belief that that was advertising over the name of Ernst & Ernst?

Mr. BERNING. Certainly not.

Mr. MARRINAN. I would like to submit this certificate only, for the record, and have it identified as a certificate attached to the annual report of the International Match Corporation for the year ended December 31, 1930, and approved or signed by the firm of Ernst & Ernst.

The CHAIRMAN. If there is no objection it will be printed in the record.

(The certificate attached to the annual report of the International Match Corporation for the year ended December 31, 1930, is here printed in the record, as follows:)

We hereby certify that we have examined the books of account and record of International Match Corporation and its American subsidiary companies at December 31, 1930, and have received statements from abroad with respect to the foreign constituent companies as of the same date. Based upon our examination and information submitted to us it is our opinion that the annexed consolidated balance sheet sets forth the financial condition of the combined companies at the date stated, and that the related consolidated income and surplus account is correct.

The item of "Other investments" in the amount of $49,448,313.87 is stated in the annexed balance sheet after deducting allowance to reduce Government bonds and marketable securities to a value below current market quotations of similar securities.

In January, 1931, the corporation issued $50,000,000 10-year 5 per cent convertible gold debentures, in connection with which the authorized participating preference stock was increased to 2,500,000 shares.

ERNST & ERNST.

May 21, 1931.

Mr. MARRINAN. Just what is the nature, Mr. Berning, of the assurances to be taken by an investor as to Ernst & Ernst professional opinion of the financial condition of this corporation as it appears in the annual report of International Match Corporation?

Mr. BERNING. To my mind the inference to be gained from the certificate is what is said. I can not tell you what others may derive from it except what I expect they do. They take the matter for what it reads—that we made the examination of the books of those companies which are mentioned, and accepted reports from other companies and have consolidated them, naturally eliminating all intercompany transactions as far as technical matters are concerned, and this is the result.

Mr. MARRINAN. Then—if I am in error correct me—the accountant's viewpoint is quite similar to that of the lawyer: He makes precise technical statements and he expects the public to understand them, is that correct?

Mr. BERNING. I can not understand why a statement of that kind is technical. It is pretty clear in my opinion as to what it means. It is in simple language and I think it expresses the circumstances.

Mr. MARRINAN. Do you believe that the average investor reads carefully the form and context of auditing statements?

Mr. BERNING. I have no way of knowing what they do read.

Mr. MARRINAN. Do you believe that the average investor fully comprehends the import of such limitations or qualifications as are to be found in that particular certificate that we have inserted in the record?

Mr. BERNING. I am sorry that I can not answer that question. I really do not know what import they may derive from it.

Mr. MARRINAN. Then there is room for doubt as to whether the investor really gets the same notion from it that you would get from it?

Mr. BERNING. Quite possibly.

Mr. MARRINAN. Do you think it fair to say that the investor is influenced favorably by any certificate without regard to its precise details, which bears the signature of a reputable firm in accountancy, such as your own firm, for example?

Mr. BERNING. In all my experience I do not believe I have ever heard or known of a case where an investor bought securities on certification of accounts. I have never had any definite evidence of that, so I can not say just how they judge the value of securities by reason of the audit.

Senator COSTIGAN. What is the basis of such purchases within your knowledge? On what does the investor rely?

Mr. BERNING. I think on the type of industry in which the company is engaged. The apparent strength of it. Its reputation as to management, and all other things of that character. Probably to some extent on the reputation of the banking firm which sponsors it. Possibly the directors, and other things connected with it.

Mr. MARRINAN. Mr. Berning, is it true that the firm of Ernst & Ernst requested that its qualified certificate of International Match Corporation found in the annual reports of the company be not publicly used by the bankers?

Mr. BERNING. I do not think so.

Mr. MARRINAN. I thought I read a newspaper story to that effect, and wished either to have it confirmed or its inaccuracy explained. It is not true?

Mr. BERNING. It is not true with regard to International Match Corporation.

Mr. MARRINAN. Did the firm of Ernst & Ernst endeavor through contacts with officers of Lee, Higginson & Co. to secure the business involved in an audit of Kreuger & Toll Co.?

Mr. BERNING. Yes; we did.

Mr. MARRINAN. You were unsuccessful in securing that business?

Mr. BERNING. We were unsuccessful in finally consummating it, although arrangements had been made for such an examination to be done for the year ended December 31, 1931.

The CHAIRMAN. But it never took place?

Mr. BERNING. No, sir.

Senator COSTIGAN. How long in advance of the death of Ivar Kreuger was that arrangement consummated?

Mr. BERNING. It had been discussed several times, as I recall it—some time during 1930—and finally came to some definite understanding regarding it in the summer of 1931.

Mr. MARRINAN. Am I correct—there was a definite agreement to proceed with an audit of Kreuger & Toll Co.?

Mr. BERNING. There was a definite understanding that we were to go into Kreuger & Toll Co. for the year 1931. There was not any definite agreement as you are speaking of; not a written document.

Mr. MARRINAN. When were you supposed to start that?

Mr. BERNING. I should judge—some time during the early part of March, I should imagine would be the proper time.

Mr. MARRINAN. What assistance, if any, was given your firm, in undertaking to get this business, by the firm of Lee, Higginson & Co.?

Mr. BERNING. Why, I think, considerable. I had talked with Mr. Durant, and I think Mr. Allen, about it, and I am sure they encouraged the idea, and they told me that they would speak to Mr. Kreuger, and they later told me that they had, and I think as the result of that the matter was arranged.

Mr. MARRINAN. When did you first try to get the job?

Mr. BERNING. Well, I took whatever proper opportunities were afforded to me in the professional sense. I should judge it was probably somewhat later than the dates of these security issues when the Kreuger & Toll Co. became interested in American markets. They had, as far as I could see, no American accountants or English auditors, and naturally, being desirous of expanding the business of our own firm, we thought this was a proper part of the picture for us to take care of, and I presume it came just quickly or some time after these various security issues were put out.

Mr. MARRINAN. Well, the original Kreuger & Toll securities were offered in the American market I believe back as far as 1923. The bond issue was offered in 1929. The participating debentures and the American certificates in 1928, a year prior. Am I to understand that you first manifested an interest in getting that contract in 1923, or in 1928, or in 1929?

Mr. BERNING. I do not recall that there were any securities of the Kreuger & Toll Co. sold in this country——

Mr. MARRINAN. Subsidiaries.

Mr. BERNING (continuing). Any securities of that company sold in this country prior to the end of 1928—September or October, something of that sort, of 1928. I know of no securities of that company sold prior to that time.

The CHAIRMAN. Were there securities in other companies sold prior to that time?

Mr. BERNING. There were in the International Match Co.; yes, sir.

Mr. MARRINAN. Well, when did you start, Mr. Berning, to get the job of actually auditing Kreuger & Toll Co.?

Mr. BERNING. Why, as a matter of hazarding a guess, Mr. Marrinan, I should judge that it would probably have been some time in the spring of 1929 when I first broached the subject to Mr. Kreuger.

Mr. MARRINAN. Then shortly after this bond issue in which we are now interested was floated on the market?

Mr. BERNING. I think that must be the time.

Mr. MARRINAN. That was issued in March, I believe.

Mr. BERNING. Yes.

Mr. MARRINAN. And admitted to listing on the stock exchange in August. When did you first suspect irregularities, Mr. Berning, in the accounts of Kreuger & Toll Co., or any of its subsidiaries?

Mr. BERNING. That is a difficult date to set, Mr. Marrinan. You ask me just that particular question. That would probably be some time in the early—the first week of March, 1932.

Mr. MARRINAN. The first week of March, 1932.

Senator COSTIGAN. Prior to the death of Mr. Kreuger?

Mr. BERNING. It is a question in my mind just how to answer this question. The matter of uneasiness came to me about that time, which was later confirmed when I was abroad, arriving in Paris two days after he died. I then confirmed what I think I might say was an uneasiness up to that time—prior to that time.

Mr. MARRINAN. What was the nature of your discovery?

Mr. BERNING. In the latter part of February—I think the 27th or 28th of February—I had a conference with Mr. Kreuger, and in that conference I asked him a question concerning the availability of some securities or the possession of some securities, and he gave me an answer that was peculiar for him. I could not understand it. And the more I pressed him for an understandable answer the more confused he apparently became. That made me quite uneasy. And it was from that date that I became considerably concerned not only over his inability to answer my question but also his apparent ill health.

Senator COSTIGAN. Where was the conference held?

Mr. BERNING. In New York City.

Senator COSTIGAN. Was anyone present except you and him?

Mr. BERNING. That is all, sir.

Mr. MARRINAN. Did that situation involve a discovery regarding the transfer of certain German bonds?

Mr. BERNING. Yes, sir.

Mr. MARRINAN. You had facilities within your own business organization to check that transaction quickly and accurately?

Mr. BERNING. Yes, sir.

Mr. MARRINAN. You did so?

Mr. BERNING. Yes, sir.

Mr. MARRINAN. And you had a part personally, perhaps the principal rôle, in the situation crowding in on Kreuger which resulted in his suicide, is that true?

Mr. BERNING. Maybe so, Mr. Marrinan. I have no way of judging to what extent.

Mr. MARRINAN. Were you not trying to get in touch with him from Berlin at the time that he put the gun, or whatever he used, to his head?

Mr. BERNING. No, sir; I was at sea—at least I was on the sea—at the time this happened.

Mr. MARRINAN. Was your man Brown in Berlin?

Mr. BERNING. Miller?

Mr. MARRINAN. Miller, I should say?

Mr. BERNING. Yes, sir.

Mr. MARRINAN. Trying to disclose that situation to proper parties?

Mr. BERNING. No, sir; Mr. Miller was the gentleman who responded to my cablegram to attempt to verify the fact that these German bonds were or were not at this bank, and he did that for me, and that was the extent of his activities.

Mr. MARRINAN. Did you communicate your doubts about this situation to Mr. Donald Durant of Lee, Higginson & Co.?

Mr. BERNING. Yes, sir.

Mr. MARRINAN. Where?

Mr. BERNING. In New York City.

Mr. MARRINAN. What instructions did Mr. Durant give you?

Mr. BERNING. He gave me no instructions.

Senator COSTIGAN. When did you so communicate your impression?

Mr. BERNING. The morning following my discovery of this matter which made me uneasy.

Senator COSTIGAN. That was before the return of Mr. Kreuger to Paris?

Mr. BERNING. Yes, sir.

Senator COSTIGAN. On his final trip?

Mr. BERNING. Yes, sir.

Mr. MARRINAN. Mr. Durant, as I understand it, accompanied Mr. Kreuger abroad?

Mr. BERNING. I believe so.

Mr. MARRINAN. And you were right on his heels?

Mr. BERNING. I sailed two days later.

Mr. MARRINAN. Did you move at the instance of Durant, or at the instance or on the initiative of your own firm?

Mr. BERNING. I went over at the request of Mr. Durant.

Mr. MARRINAN. You verified the transaction, or you verified your suspicions then after Kreuger's death, and not, as I understood it, immediately before?

Mr. BERNING. I verified it immediately following Kreuger's death, although I determined the fact that the bonds were not in Berlin as they were supposed to be, before that date.

The CHAIRMAN. How long before Kreuger's death did you determine that question?

Mr. BERNING. I think it was either the 5th or 6th of March, Senator.

The CHAIRMAN. And his death was on what date?

Mr. BERNING. The 12th.

The CHAIRMAN. And you went to Paris at the suggestion of Mr. Durant?

Mr. BERNING. Yes, sir.

Mr. MARRINAN. I have heard much of alleged frequent informal reports, both verbal and in writing, which you are said to have written to Mr. Durant regarding the Kreuger & Toll situation. You spent a short time of each year for several years in Stockholm. You had an opportunity for at least a casual inspection of the situation over there. Were these reports which you made to him, which I understand were of an informal character, reports on the condition of companies, or were they more in the nature of a voluntary service which you were rendering primarily with a view to securing business? Is that question too long? Let me be fair.

Mr. BERNING. I shall attempt to answer.

Mr. MARRINAN. I want to be clear. I know that you were sending such informal communications. I want to know whether those were regarded as business documents which you would wish to stand for as an accountant, or whether they were in the nature of informal, voluntary reports which you made as a matter of accommodation and in order to promote your firm so that it would get additional business?

Mr. BERNING. I will try to answer that question, Mr. Marrinan. I do not recall any system of reports, informal or otherwise, that I may have given Mr. Durant. I do know that whenever anything came to my attention by way of a printed annual report of the companies in the group, or anything which came to my mind in which I thought he would be interested, I would convey it to him. In no

case were these reports or memoranda the results of any auditing or accounting work such as I am sure that our firm is qualified to do. Nor did he understand that they were such. I am pretty sure he understands fully the sources as well as the extent to which anything that I told him was verified.

Senator COSTIGAN. Precisely what was the discovery in Berlin which verified your suspicion?

Mr. BERNING. May I go back to this conversation with Mr. Kreuger in order that I may draw the picture for you, Senator? At the time of this conversation with Mr. Kreuger the International Match Co. owned $50,000,000 par value of German bonds which they had secured in connection with the monopoly. These bonds were on the books of the American company and were held for safe keeping in a bank in Berlin. In going over the situation with Mr. Kreuger at the time this thing developed he explained to me that these bonds had been transferred from International to its wholly owned subsidiary company abroad, which meant, in other words, putting it from one pocket into another. And the ownership was still in the group, but just once removed. I questioned him as to why that had been done. It was a very large proportion of the International parent company's direct assets.

And at that time these explanations that he attempted to give me were those either of a sick man or of some one that was not entirely in his right mind. It concerned me a great deal. I was with him quite a few hours that evening—it went on to about 7 or 8 o'clock—and I left with a very great feeling of uneasiness, because I had no explanation of the reason why this had been done, or the purpose or the significance.

I reported the matter to Mr. Durant the following morning. He immediately took the matter up with Mr. Kreuger, as I understand the circumstance, and he promised to reverse the deal at once. A few days later Mr. Kreuger showed me a cablegram from Germany, which was in the German language, which he translated to me, and which I understood myself, as I have a knowledge of the German language, stating that the bonds were again in the bank at Berlin free and clear for the account of the International Match Corporation. I immediately returned to my office to cable to our representative, Mr. Miller, in Berlin, to verify that, and this was on a Saturday, and on the following Monday I received his reply that the bonds were not there.

The CHAIRMAN. What were the amounts of those bonds?

Mr. BERNING. What is that, sir?

The CHAIRMAN. What was the value of those bonds?

Mr. BERNING. The par value was $50,000,000. And following my arrival in Paris after meeting with Mr. Durant I suggested that possibly the best thing I could do would be to go to Stockholm immediately, which I did, and when I went to Stockholm I discovered what had been done with the bonds.

Mr. MARRINAN. Am I to understand, Mr. Berning—I am merely trying to repeat so that I may understand clearly—you do not believe that Mr. Durant should have relied on informal reports in a degree which should greatly influence his opinion and the opinion of his various business associates on the Kreuger & Toll situation?

Mr. BERNING. That is a hard question to answer, Mr. Marrinan, if I understand it correctly. I have no way of knowing to what extent

Mr. Durant may have relied on anything, but I would be quite surprised if anything that I gave him caused him to rely upon the financial statements of the company any more than he had every reason to do, knowing the source and the extent to which they were verified.

Mr. MARRINAN. Mr. Berning, is it your professional opinion that the American investors in the secured debentures of Kreuger & Toll Co. would have been better protected had there been a proper audit of the company's affairs?

Mr. BERNING. If you will include in that a proper audit of all of the companies, whether they were directly owned or affiliated, I will have to say "yes."

Senator COSTIGAN. Pardon me just a moment. In the New York Times of January 10, 1933, appears a reference to a reported publication by Price, Waterhouse & Co., of New York City, of a report on the business transactions of Kreuger & Toll. In that report, according to the New York Times, appeared this paragraph:

> The frauds could not have been consummated without assistance—witting or unwitting—of some of his associates, including some of the officers of the holding and financial companies, nor could they have been concealed if either the audits of the companies had been coordinated under a single control, or if the audits, though not so coordinated, had been carried out in all cases with proper honesty, efficiency, and independence.

Does your judgment concur with the statements I have read?

Mr. BERNING. You will understand, Senator, that I have personally never seen the books of Kreuger & Toll nor examined them, nor many of the hundreds of companies on which that information is based. I have, however, had quite some considerable contact with representatives of Price, Waterhouse & Co., and in accordance with what I have learned from them I think that is absolutely correct.

Mr. MARRINAN. Mr. Berning, if American practice had required responsibility of the auditor to shareholders instead of to the company, do you think it would have been easier for your firm to have secured a contract to make this audit of Kreuger & Toll, which apparently you tried to arrange for some two years without much success, and which was finally consummated just a little too late?

Mr. BERNING. You understand that this Kreuger & Toll Co. was a Swedish company, and as to the election of auditors by shareholders of a Swedish company I am not familiar. Nor to what extent we would have participated in that election unless the management possibly would recommend us and the shareholders would approve. Now I just want to point out that this was a Swedish company and not an American company, and we would not be working under American practices.

Mr. MARRINAN. Yes; I realize that, but in this secured-debenture issue most of the holders were in the United States.

Mr. BERNING. Possibly.

Mr. MARRINAN. That is all, gentlemen, in so far as I wish to examine Mr. Berning. It is only fair to say this, that in order to answer the summons of this committee without undue expense at these times, Mr. Berning came specially from Winston-Salem, N. C., to New York and voluntarily offered himself for service.

Senator COSTIGAN. May I ask one further question? Have the German bonds which you were endeavoring to trace in Berlin ever been located?

Mr. BERNING. They have been located; yes, sir.

Senator COSTIGAN. Where were they?

Mr. BERNING. They have been pledged—I am speaking now somewhat from hearsay, and somewhat from information given to me by Price, Waterhouse, and the representatives abroad with whom I have worked on this particular matter, and to whom I gave all the evidence that I have been able to gather, that a large part of those bonds have been pledged to secure personal obligations of Mr. Ivar Kreuger, and I believe they are still so held. I am not certain about them.

Senator COSTIGAN. Is there anything known as to what use was made of the proceeds of those bonds?

Mr. BERNING. No, sir.

Senator COSTIGAN. By Mr. Kreuger?

Mr. BERNING. I can not answer that question; I do not know.

Senator COSTIGAN. Thank you.

Mr. BERNING. Am I finished?

Mr. MARRINAN. Yes.

The CHAIRMAN. Thank you, Mr. Berning. George O. May is the next witness.

You do solemnly swear that you will tell the truth, the whole truth, and nothing but the truth, regarding the matter now under investigation by the committee, so help you God.

TESTIMONY OF GEORGE O. MAY, SENIOR PARTNER OF PRICE, WATERHOUSE & CO., AUDITORS; RESIDENCE, SOUTHPORT, CONN.; OFFICE IN NEW YORK CITY

(The witness was duly sworn by the chairman, as shown above.)

The CHAIRMAN. Give your name and address to the reporter, please.

Mr. MAY. George O. May; my residence is Southport, Conn.; my office is in New York.

Mr. MARRINAN. Mr. May, you are a partner in the firm of Price, Waterhouse & Co., of New York?

Mr. MAY. Yes.

Mr. MARRINAN. Is that company an American company?

Mr. May. It is an American partnership.

Mr. MARRINAN. An American partnership?

Mr. MAY. Yes.

Mr. MARRINAN. In its management it is wholly independent of the Price, Waterhouse & Co., of London, although there are certain affiliations between the two companies?

Mr. MAY. That is so.

Mr. MARRINAN. I wish to have that clearly understood. Mr. May, the firm of Price, Waterhouse & Co. was retained some seven or eight months ago to make an audit for the receivers and liquidators in this Kreuger & Toll situation; is that not true?

Mr. MAY. Well, to make it quite clear, the firm of Price, Waterhouse & Co. on the Continent of Europe, with headquarters in Paris, was so retained. That is another affiliated firm. And the senior partner of that firm in Paris, Mr. Seatree, who is also an American citizen, and formerly of the United States, had charge of the investigation.

Mr. MARRINAN. Yes. Is that audit now complete?

Mr. MAY. I believe so.

Mr. MARRINAN. Then the summary report which was made public on Monday I believe, in Stockholm and New York, is the final product in that audit?

Mr. MAY. Unless the parties request us to do some further work.

Mr. MARRINAN. Mr. May has very kindly furnished the committee with a copy of that report, which I would like to have incorporated in the record.

The CHAIRMAN. If there is no objection it will be printed in the record.

(The final report dated November 28, 1932, of Price, Waterhouse & Co., on A. B. Kreuger & Toll group of companies, is here printed in the record in full, as follows:)

A. B. KREUGER & TOLL GROUP OF COMPANIES—FINAL REPORT DATED NOVEMBER 28, 1932—PRICE, WATERHOUSE & CO., STOCKHOLM

PRICE, WATERHOUSE & CO.,
Stockholm, November 28, 1932.

THE LIQUIDATORS OF A. B. KREUGER & TOLL,
THE TRUSTEE IN BANKRUPTCY OF THE INTERNATIONAL MATCH CORPORATION,
THE ADMINISTRATORS OF THE SWEDISH MATCH CO.,
THE LIQUIDATORS OF THE ESTATE OF IVAR KREUGER, DECEASED, SUCCESSORS TO THE COMMITTEE APPOINTED BY THE BOARD OF DIRECTORS OF A. B. KREUGER & TOLL TO INVESTIGATE THE AFFAIRS OF THE KREUGER & TOLL GROUP OF COMPANIES.

DEAR SIRS: We have now completed our investigations of the A. B. Kreuger & Toll group of companies and beg to submit our final report thereon.

SCOPE OF INVESTIGATION

As you are aware the work was commenced under instructions received on March 23, 1932, from the committee appointed, following the death of Ivar Kreuger on March 12, to investigate the affairs of these companies, and was continued, on the termination of the functions of that committee on May 21, 1932, for your joint account under a 4-party arrangement thereafter entered into.

At the outset our investigations were directed to the affairs of the principal holding and finance companies within the group enumerated below whose books and accounts are kept at the cities mentioned:

In Stockholm.—A. B. Kreuger & Toll, the parent company; N. V. Financieele Maatschappij Kreuger & Toll (the 100 per cent owned Dutch subsidiary company of A. B. Kreuger & Toll); Continental Investment A. G. (the 100 per cent owned Liechtenstein subsidiary company of International Match Corporation of New York); Svenska Tändsticks A. B. (The Swedish Match Co.); N. V. Financieele Maatschappij Garanta.

In New York.—International Match Corporation.

In Berlin.—Deutsche Unionbank A. G.

In Zurich.—Finanzgesellschaft für die Industrie.

In Warsaw.—Bank Amerykanski w Polsce.

In Paris.—Banque de Suède et de Paris.

In Amsterdam.—N. V. Hollandsche Koopmansbank.

In Geneva.—Société Financière pour Valeurs Scandinaves en Suisse.

In Bucharest.—Banca Danubiana S. A.

As the investigation developed it soon became apparent that there were serious irregularities in the affairs of the four principal companies whose accounts were kept in Stockholm and the one in Zurich and that the scope of the investigation should necessarily be broadened to include certain other companies also, and our instructions were accordingly extended to embrace the following:

In Stockholm.—Nederlandsche Bank voor Scandinavischen Handel; Société Financière Suisse et Scandinave A. B.; Polish-American Products Corporation; American European Match Co.; American Manufacturers and Dealers Corporation; Lutzelburg Holding Co.; Holding Company Hollandia; Exportaktiebolaget Norden.

In Paris.—Société Immobilière Birka; Compagnie Foncière Vendome Banque Contant.

In London.—The Alsing Trading Co. (Ltd.).

On June 20, 1932, our instructions were again extended to include the scrutiny of the accounts of 140 subsidiary manufacturing and trading companies situated throughout the world comprising an examination of their financial statements and returns (received in response to a detailed questionnaire which we prepared for transmission to them), and as regards the more important of the European companies, the attendance at their offices in Paris, Brussels, Amsterdam, Eindhoven (Holland), Berlin, Budapest, Belgrade, Bucharest, and four points in Finland, to make an examination of their accounts or to assist in the preparation of their reports.

As the work progressed it also became evident that serious irregularities had extended back for at least 15 years and that during this period, under Kreuger's administration, the accounting as between six of the principal companies and also that with himself was most irregular, whereupon we were requested to make a detailed investigation of these current accounts from their inception. This was rendered essential in order to make it possible for the various interests concerned (now that bankruptcy had intervened for some of them) intelligently to prepare their respective claims against each other. Moreover in respect of a number of so-called suspense accounts through which large sums of money had been appropriated and concealed, it became necessary to make detailed investigations and inquiries in Stockholm, Berlin, Hamburg, Amsterdam, Brussels, Paris, Milan, Rome, Madrid, London, Montreal, New York, and Buenos Aires.

Our task under the 4-party agreement has been to ascertain and report fully and impartially upon the material facts relating to the companies and to the transactions between them, but to refrain from any attempt to interpret the records in so far as the rights and obligations as between companies were involved or to arrive at final conclusions as to the actual financial position of the different groups, which can only be established when the legal position is more clearly defined.

From time to time we have also furnished the committee with such memoranda as were required in its efforts to assist the police authorities in their detailed investigations.

RESULTS OF INVESTIGATIONS

The results of our investigations are embodied in 57 separate detailed reports we have prepared and submitted on various phases of the matter during the course of our work and while it is unnecessary to recapitulate these here, or to comment upon them further it is, we think, desirable, as a matter of record, to submit herewith a complete list which is contained in the attached appendix, marked "A."

These reports are voluminous and having regard to this fact and to the range of the subjects covered, it is not practicable to reduce our findings to a brief summarization of them. It is nevertheless possible to set forth firstly, an indication of the subjects dealt with and secondly, some of the conclusions we have reached.

Of the subjects dealt with in these reports specific mention may be made of the following:

(1) The establishment as far as was practicable of the financial position of the companies above set forth as at the date selected, viz, March 31, 1932, subject to the disposition of questions affecting intercompany rights and obligations.

(2) The ascertainment of their earnings and income.

(3) An examination into the financial stability and earnings for the past three years of 140 controlled subsidiary manufacturing and trading companies.

(4) The position in regard to match monopoly concessions and the profits derived from them.

(5) The facts and circumstances surrounding share and debenture issues and the disposition of the proceeds thereof.

(6) Particulars of the acquisition of shareholdings in subsidiary companies and of other investments.

(7) The facts in regard to intercompany accounting relations as between the five principal companies within the group, with the two Kreuger & Toll companies, Swedish Match Co., International Match Corporation, and Continental Investment A. G.

(8) The affairs of and the business relations with Alsing Trading Co., Exportaktiebolaget Norden and Finanzgesellschaft für die Industrie.

(9) Analysis of account with Ivar Kreuger.

(10) The facts and situations relating to such matters as:

(*a*) Italian bonds.

(*b*) German bonds.

(c) Diamond and Ohio match shares.
(d) Polish and other suspense accounts.
(e) Garanta account.
(f) A. Goldschmidt account, etc.

(11) Facts and particulars of all accounts and transactions of importance which appeared to be irregular, fraudulent or fictitious.

CONCLUSIONS

In concluding this report we propose to deal briefly with three questions of general interest, namely:

(1) Where has the money gone which the public has subscribed?
(2) To what extent were reported earnings real?
(3) How early did Kreuger's irregularities begin and what enabled them to be concealed?

To answer the first question it is necessary to deal with the combined position of five of the principal companies taken collectively, i. e., the three which sought money from the public on a large scale comprising (1) A. B. Kreuger & Toll; (2) International Match Corporation; and (3) Svenska Tändsticks A. B. (the Swedish match company); and the two underlying finance companies, viz, (4) N. V. Financieele Maatschappij Kreuger & Toll; and (5) Continental Investment A. G.

The aggregate funds made available to these companies during the period of 14¼ years from January 1, 1918, to March 31, 1932, inclusive, and the eventual disposition thereof, as revealed by our investigations, expressed in Swedish kroner at par and in round numbers, is shown in the following statement:

Funds provided:			
(1) Net proceeds of share and debenture issues, i. e., including premiums and deducting discounts and issue expenses			2, 104, 569, 000
(2) From bank loans and bill credits			613, 892, 000
(3) From other credits (net)			5, 320, 000
(4) From revenue sources—			
Net income before providing for shrinkage in value of securities, debenture interest, and dividends paid			150, 962, 000
Total funds provided			S. Kr. 2, 874, 743, 000
Disposition of funds:			
(1) Debenture interest and dividends paid to security holders outside the group			668, 280, 000
(2) Withdrawn by Ivar Kreuger—			
On current accounts	347, 363, 000		
Securities and other assets appropriated	468, 492, 000		
		815, 855, 000	
Less assets introduced		383, 809, 000	
			432, 046, 000
(3) Invested in securities acquired and in associated and subsidiary companies (net)—			
In Government and other marketable securities	1, 127, 405, 000		
In associated companies	548, 544, 000		
Together	1, 675, 949, 000		
Less appropriated by Ivar Kreuger (included in appropriations shown above)	207, 341, 000		
		1, 468, 608, 000	
In subsidiary manufacturing and trading companies		241, 585, 000	
			1, 710, 193, 000
(4) Invested in intangible assets (monopoly concessions)			64, 224, 000
Total accounted for			S. Kr. 2, 874, 743, 000

The approximate value of the investments at March 31, 1932, as based on the best information available (i. e. market quotations, carefully considered estimates and, as regards investments in subsidiary manufacturing and trading companies, their provisional book values), is about S. kr. 775,000,000, which, when compared with the aggregate book value above shown of S. kr. 1,710,193,000, reveals a shrinkage of about S. kr. 935,000,000.

Turning to the second question, our examination has disclosed that during the same period of 14¼ years the apparent reported earnings and income of these companies combined in the aggregate were grossly overstated. The extent of this overstatement is shown in the following comparison of the reported earnings (adjusted to eliminate intercompany dividends, debenture interest and other items irrelevant to the present consideration) with the approximate aggregate combined earnings and income as now ascertained:

Earnings and income as based on published or book figures adjusted to eliminate intercompany dividends, debenture interest, and other items irrelevant to the present consideration	1, 179, 357, 000
Approximate real earnings and income (both normal and extraordinary) on the same basis, which is before providing for shrinkage in value of investments estimated at about S. kr. 935,000,000	150, 962, 000
Excess of reported earnings as above over real earnings as above—S. kr.	1, 028, 395, 000

This difference of S. kr. 1,028,395,000 is made up of fictitious credits to income accounts, aggregating S. kr. 1,043,693,000, less a sum of S. kr. 15,298,000 representing the net adjustment of normal profit and loss items.

The amount of fictitious earnings and income includes some items which may have had an appearance of reality when considered solely from the standpoint of the individual companies receiving the credits, in that they were supported by what purported to be guarantees of another company within the group or by actual cash remittances.

There are a number of items, aggregating a fairly substantial sum, the genuineness of which is doubtful, and in regard to these the lenient view has been taken in that for the purpose of this analysis they have been classed as "genuine."

The total earnings of S.Kr. 150,962,000 shown above, which, it should be reiterated, are before providing for debenture interest and shrinkage in investment values are equivalent to about 1½ per cent on the relative average capital (share and debenture) invested in these companies during the same period.

Neither these earnings nor any other facts developed by our examination lend any support to the view that Kreuger possessed business ability so extraordinary as to warrant the grant to him of the freedom from control or disclosure of his actions which he enjoyed.

With regard to the third question, we have already indicated that the manipulation of accounts goes back at least as far as 1917. The fraudulent practices assumed large proportions in 1923 and 1924 and continued thereafter, culminating in the fabrication of £21,000,000 (nominal) of Italian Government bonds.

The perpetration of frauds on so large a scale and over so long a period would have been impossible but for (1) the confidence which Kreuger succeeded in inspiring, (2) the acceptance of his claim that complete secrecy in relation to vitally important transactions was essential to the success of his projects, (3) the autocratic powers which were conferred upon him, and (4) the loyalty or unquestioning obedience of officials, who were evidently selected with great care (some for their ability and honesty, others for their weaknesses), having regard to the parts which Kreuger intended them to take in the execution of his plans.

The absolute powers with which Kreuger was vested gave him complete domination of the entire group and of all the executive and administrative staffs. Indeed, he conducted the entire business as though he was accountable to no one, as evidenced by his action in intercompany matters in respect of which the rights of third parties, such as the security holders and creditors of each unit, were completely ignored.

Closely related to the causes already mentioned are the complicated and confused bookkeeping in regard to many important transactions and the gross inadequacy of the documentary evidence in support of accounting entries which our examination has disclosed.

The frauds could not have been consummated without assistance—witting or unwitting—of some of his associates, including some of the officers of the holding and financial companies, nor could they have been concealed if either the audits

of the companies had been coordinated under a single control, or if the audits, though not so coordinated, had been carried out in all cases with proper honesty, efficiency, and independence. It is apparent that the employment of different auditors for different closely associated companies, restrictions in the scope of examinations, subserviency if not complicity on the part of some of the employees and some of the auditors, and forgery of documents in order to meet demands for evidence confirmatory of book entries, all contributed to prevent such audits as were made from resulting in exposure.

The history of this group of companies emphasizes anew the truth that enterprises in which complete secrecy on the part of the chief executive officer as to the way in which important parts of the capital are employed is, or is alleged to be, essential to success are fundamentally unsuited for public investment, since such secrecy undermines all ordinary safeguards and affords to the dishonest executive unequaled opportunities for the perpetration and concealment of frauds.

Upon the conclusion of our investigation, which has now extended over seven months, we desire to place on record that in the course of our work we have received throughout the most sympathetic cooperation and support of the various committees, liquidators, and administrators, as well as the whole-hearted assistance of the present officials and staff. Our cordial thanks are due for this cooperation and for the unfailing patience and courtesy in difficult circumstances which have everywhere been accorded to us.

Yours very truly,

PRICE, WATERHOUSE & Co.

Kreuger & Toll group of companies—list of reports submitted, 1932

Apr. 3. First preliminary report.
10. The Italian bond situation.
24. Memorandum re Holm, Huldt & Lange.
May 3. Banca Danubiana S. A., Bucharest.
5. Combined preliminary statement of position.
9. Société Financière pour les Valeurs Scandinaves en Suisse, Geneva.
10. Société Générale des Allumettes, Paris.
11. Banque de Suède et de Paris, Paris.
12. Commercial & Industrial Properties Corporation, New York.
12. Bank Amerykanski w Polsce, Warsaw.
12. N. V. Hollandsche Koopmansbank, Amsterdam.
12. Estate of Ivar Kreuger, deceased.
13. Abnormal Inter-Company transactions.
14. Memorandum on Garanta contract and Polish suspense account.
14. Deutsche Unionbank A. G., Berlin.
17. Société Immobilière Brika, Paris.
17. Compagnie Foncière Vendome, Paris.
19. International Match Corporation, New York.
20. A. B. Kreuger & Toll, approximate statement of liabilities.
28. Memorandum re Diamond Match Co. shares.
30. Supplementary memorandum re Diamond Match Co. shares.
30. Accounts of Mr. Sune Schele.
June 7. Supplementary report re Bank Amerykanski w Polsce.
30. Swedish Match Co. re cash shortage.
July 12. Polish suspense account and related matters.
12. Swedish Match Co., earnings.
16. Continental Investment A. G., current account with A. B. Kreuger & Toll.
22. Alsing Trading Co (Ltd.), London.
Aug. 2. A. B. Kreuger & Toll, current account with Continental Investment A. G.
11. Continental Investment A. G., current account with Swedish Match Co.
16. Continental Investment A. G., current account with International Match Corporation.
16. Suspense accounts and related matters.
16. Supplementary report to A. B. Kreuger & Toll, current account with Continental Investment A. G.
20. Swedish Match Co., current account with International Match Corporation.
26. German Reich 50-year 6 per cent external gold loan 1930.
28. Swedish Match Co., current account with Continental Investment A. G.

31. Continental Investment A. G., main report.
31. Exportaktiebolaget Norden.
31. Swedish Match Co., current account with A. B. Kreuger & Toll.
Sept. 3. A. B. Kreuger & Toll, main report.
6. Supplementary memorandum to Kreuger & Toll main report re Mr. Bergman's memorandum.
15. Swedish Match Co., main report.
26. Supplementary report to Swedish Match Co., current account with A. B. Kreuger & Toll.
28. N. V. Financieele Maatschappij Kreuger & Toll.
29. A. B. Kreuger & Toll, current account with N. V. Financieele Maatschappij Kreuger & Toll.
Oct. 7. Swedish Match Co., share capital and debenture issues.
12. A. B. Kreuger & Toll, current account with the Swedish Match Co.
15. Monopoly contracts.
24. Polish American Products Corporation, American European Match Corporation, American Manufacturers & Dealers Corporation.
26. Finanzgesellschaft fur die Industrie, Zurich.
Subsidiary companies:
Swedish Match Co.—
31. Domestic.
31. Foreign.
31. International Match Corporation.
31. A. B. Kreuger & Toll.
31. Finanzgesellschaft fur die Industrie.
31. Miscellaneous.
Nov. 26. Ivar Kreuger, current account with A. B. Kreuger & Toll.

Mr. MARRINAN. Mr. May, I think you would be very helpful to the committee in drawing out of this Kreuger & Toll situation any possibilities for remedies if you find it possible to answer a few questions which may be regarded as professional. I hope they will be professional in the asking. From your experience in this Kreuger——

Mr. MAY. I beg to remark, before I do that——

Mr. MARRINAN. Yes, sir.

Mr. MAY. I, of course, would be delighted to do anything I can to aid the committee, but I would like to make this point, that the usefulness of my firm in the situation has arisen from the fact that we have acted in a purely impartial capacity between all the interests, Swedish and American, that are involved, and therefore I would like to avoid, if possible, any questions which seem to bear directly on this particular issue, answers to which might be calculated to impair in any way that attitude of impartiality. With that one reservation I would like to answer as fully as I can any questions you wish to put to me.

Mr. MARRINAN. Specifically what limitation do you think that places upon questions?

Mr. MAY. Well, I do not know that it will on any, but I thought if any question seems to impinge on that section I would like to ask you to reconsider before pressing me to answer it, and I will give my reasons if and when the necessity arises.

Mr. MARRINAN. Very well, sir. I asked the second question because I can not conceive of any question before this committee which by a proper stretch of the imagination could not be led right into that situation.

From your experience in this entire Kreuger & Toll picture what is your professional opinion of an arrangement wherein the auditor reports to shareholders rather than to the company, Mr. May?

Mr. MAY. Well, as the result of all my professional experience I am heartily in favor of such an arrangement, and I have strongly advocated it, and I have had some part in bringing about the action

of the New York State Chamber of Commerce recently favoring that action.

Mr. MARRINAN. May I ask as a matter of helpfulness to the committee that you give us your professional opinion as to the relative development of accountancy in England and in the United States?

Mr. MAY. Well, that is rather a large order. It is by no means a one-sided question. In some respects English practice has gone ahead of American. In other respects I think American practice has gone distinctly ahead of English. I think it may surprise you, but American practice is distinctly ahead of English in the amount of information which is given to shareholders—unquestionably.

The CHAIRMAN. Do they seem to need more information over here?

Mr. MAY. Well, if you like I will tell you—I do not want to volunteer remarks, but if it will throw any light I will tell you how that has come about in my judgment It happens to be a situation that I have studied rather intensively the last two or three years. And I think there is a strong feeling to the same effect in England that information is inadequate in England. And the reason has largely been that the regulation in England is statutory. And of course statutes can only lay down what I may call minimum standards, failure to comply with which subjects them to penalty. What we want is much higher standards than that. And the result of these standards laid down by law in England has been that company officials who were reluctant to give information have said, "Well, that is all the law requires, and you have got no right to ask us to give more." And some auditors have accepted that position. Whereas here I think the profession has taken the position that what is due to shareholders is a matter of good conscience and good business practice. And there are no legal limitations on it. So they must use their own judgments when they consider that the directors are giving reasonable amount of information to the shareholders. That, I think, is the history of the development.

Mr. MARRINAN. That does not, of course, prevent the possibility of regulation which would compel all necessary information?

Mr. MAY. Well, that is a difficult branch of legislation when you come to formulate it I think you will find, for the reason that I have said you can only set down a standard which everybody is bound to observe, and that must be a relatively low standard. You can not put it as high as the best practice should be when you establish a practice by law.

Mr. MARRINAN. Mr. May, gentlemen, is head of the firm in New York, head of Price, Waterhouse & Co. in New York, and associated with the continental Price, Waterhouse & Co. which made this audit of Kreuger & Toll. But I would like to ask him, although we shall have it in the record, to tell us briefly what are the outstanding points in that situation. That is a matter of public record now.

Mr. MAY. Oh, yes; it is no embarrassment at all.

Mr. MARRINAN. No embarrassment.

Mr. MAY. This report was prepared in response to a request from some of the people in Sweden who thought that in addition to the 57 technical reports that our firm has already made, some of which run to hundreds of pages, there should be some short report that would deal with the major points in which there was general interest.

The first part of the report sets out the extent of the examination and recites the reports that have been rendered, all of which have been furnished to the four parties in interest. Our firm acted since

May under an arrangement with the liquidator of Kreuger & Toll in Sweden, the trustee in bankruptcy of the International Match, the administration of the Swedish Match, and the liquidator of the estate of Ivar Kreuger on the basis that we would confine ourselves strictly to an impartial determination of facts which would be put at the disposition equally of all parties, whichever way they cut, leaving the people to determine their rights on the basis of those facts in whatever way might later develop. We were not to concern ourselves with that problem. We were to keep ourselves in that state of impartiality. And we have done our best to do that and to keep an open mind on all original questions that have arisen.

Now, the report sets out what we have done in pursuance of that, and then it states certain general conclusions answering three questions in a general way:

(1) Where has the money gone which the public has subscribed?
(2) To what extent were reported earnings real?
(3) How early did Kreuger's irregularities begin and what enabled them to be concealed?

We have attempted to deal briefly with those three questions.

The CHAIRMAN. Let me ask, was the money lost in speculative enterprises?

Mr. MAY. Well, I will answer these questions.

The CHAIRMAN. You are going to answer them. Very well.

Mr. MAY. We have dealt with the companies collectively, because there are a great number of intercompany transactions, and if you added together the apparent losses of all the different companies, or the apparent amount of money, you would get it all multiplied, because it passed from one company to another, so this report cuts out the intercompany transactions and takes the group as a whole, which shows that during the period from January, 1918, to March 31, 1932, the group of companies raised from the public a total amount on shares and debenture issues of 2,100,000,000 kroner. A krone is about 26.8 cents at par.

Senator COSTIGAN. That figure is given as 2,104,000,000 kroner in your transcript.

Mr. MAY. Yes. 2,104,000,000 kroner. I misread it. I beg your pardon.

And from bank loans and bills 614,000,000 kroner in round figures.

Then paid out in debenture interest and dividends 668,000,000 kroner.

And as far as we can ascertain the real net income before providing for shrinkage in value of securities, the interest was 151,000,000 kroner.

So that of the 2,700,000,000 roughly that they had raised in capital some 513,000,000 kroner was paid out in dividends and interest that had not been earned.

Then Kreuger took out securities and failed to account for them, or cash. How that was expended it is impossible to say. Some of it may have been in what he believed to be methods that were useful to the company, such as supporting the market, or something of that kind.

The CHAIRMAN. Kreuger took out how much?

Mr. MAY. Four hundred and thirty-two million Kroner.

The CHAIRMAN. More than $100,000,000?

Mr. MAY. Yes; more than $100,000,000.

The CHAIRMAN. That disappeared there?

Mr. MAY. Yes. One billion one hundred and twenty-seven million kroner was expended in the purchase of Government and other marketable securities; 548,000,000 kroner was expended in investments in associated companies. There is a deduction from that of 200,000,000 kroner for securities which Kreuger took, which were already included in the 400,000,000 kroner; and then 240,000,000 kroner in subsidiary manufacturing and trading companies. So that there is a net expenditure for investments of 1,710,000,000 kroner; and 64,000,000 kroner that we traced as invested in monopoly concessions and similar intangible assets.

Senator COSTIGAN. Of course the figures that you are giving are in round numbers.

Mr. MAY. They are all in round numbers, naturally.

The CHAIRMAN. Does it appear that there was not an operating profit in the companies?

Mr. MAY. Well, we show that over the 18 years the operating profit for the whole period, as far as we can find, is about 151,000,000 before interest.

The CHAIRMAN. And the dividends were how much?

Mr. MAY. Six hundred and sixty-eight million kroner.

The CHAIRMAN. $150,000,000.

Mr. MAY. $150,000,000, yes.

The CHAIRMAN. And they paid in dividends more than four times what they earned?

Mr. MAY. Exactly. Now the investments, as far as one could value them—they were valued by a committee in Sweden—Mr. Jacob Wallenberg was the head of it—and the subsidiaries were valued, I think, on the basis of their tangible assets, as shown by their books. On that basis there is a shrinkage of 935,000,000 kroner in the value of the investments. So that the amount of dividends paid in excess of earnings, plus what Mr. Kreuger took, accounts for just another 1,000,000,000. And the shrinkage in investments is another 1,000,000,000. And that is what has brought this company down.

The CHAIRMAN. And that leaves out of the original 2,700,000,000 kronor; about 700,000,000 kroner?

Mr. MAY. About 700,000,000 kroner of securities, yes.

Senator COSTIGAN. Have you translated the figures into dollars?

Mr. MAY. We have not in this report. This report was rendered in Sweden. It is about a quarter—a little over a quarter, because they were at par nearly all this time.

Now the reported earnings over the same period were 1,179,000,000 kroner. And the actual, as I said, were 151,000,000 kroner. So that the fictitious earnings are apparently 1,028,000,000 kroner.

Senator TOWNSEND. Or about $250,000,000?

Mr. MAY. About $250,000,000; yes. In doing that we have treated a number of doubtful items as genuine so as not to exaggerate the picture. So that that 151,000,000 kroner may be a little above the true earnings.

There is one point that we mention in the report which I think should be brought in fairness to all parties. That this is a collective picture. And some of these transactions between companies, while they are obviously fictitious, when you see the picture as a whole may well have appeared entirely genuine to the particular companies

that received them, because in some cases they were supported by what purported to be guaranties from other solvent companies.

The CHAIRMAN. In other words, those $50,000,000 of bonds if they went to one company would show that strong and when they went to another company would show that strong?

Mr. MAY. No; I was thinking of the other. That some of the items that were received as earnings by one of the subsidiaries might well have appeared genuine earnings to them, but when you look at where they come from in the original company they were fictitious; so the people who received them in the second company are not to be blamed if they thought they were genuine.

The CHAIRMAN. But it is a boosting of one company at the expense of another one?

Mr. MAY. Not entirely that. For instance, Company A may show that it has received 200,000,000 kroner of earnings which are fictitious. Out of that it pays a dividend to another company. And that company receives it as a dividend in cash, possibly, and has no reason to doubt that it has perfectly good earnings in its hands. But when you trace the whole chain you will find that that 200,000,000 kroner is probably a return to it of 200,000,000 kroner that it paid out for an investment in another company, that had been paid out to a third company possibly as an income that comes out of another company as a dividend. I want to make that clear, because when you see the picture as a whole the fiction is apparent. But anybody seeing only a part of the picture may be not in the least blameworthy for being deceived.

Senator COSTIGAN. Is it correctly reported that you investigated 140 Kreuger companies?

Mr. MAY. I think that is something like the number.

Senator COSTIGAN. Were there other companies in the Kreuger group not investigated by you?

Mr. MAY. Well, we did not make a detail investigation of all. But as a matter of fact, to give you the picture, the greater part of this fraudulent work was handled through two companies, which were obviously formed by Kreuger for that purpose.

Senator COSTIGAN. What were the names?

Mr. MAY. One is the Continental Co., and the other is the Dutch Kreuger & Toll. Those he kept well under his thumb with creatures of his own in charge, and auditors, and he knew he could get a certificate from them at any time of anything that he wanted. And that is where he buried this stuff. So that it was only by getting into those companies that you could see at once that the whole structure was honeycombed with irregularities.

Senator COSTIGAN. They were clearing houses for manipulation?

Mr. MAY. Well, they were sinks.

Now the question with which you gentlemen are concerned is really the third question, of how was it possible that these things could happen and be concealed, because I imagine your real purpose is to do something constructive in drawing lessons from the past for the benefit of the future.

Senator COSTIGAN. Yes.

Mr. MAY. Now perhaps the best thing is for me to read what my senior partner in Paris, of our continental firm, wrote after a very

deliberate and careful study of the situation dealing with that question. He says:

The perpetration of frauds on so large a scale and over so long a period would have been impossible but for (1) the confidence which Kreuger succeeded in inspiring, (2) the acceptance of his claim that complete secrecy in relation to vitally important transactions was essential to the success of his projects, (3) the autocratic powers which were conferred upon him, and (4) the loyalty or unquestioning obedience of officials, who were evidently selected with great care (some for their ability and honesty, others for their weaknesses), having regard to the parts which Kreuger intended them to take in the execution of his plans.

The absolute powers with which Kreuger was vested gave him complete domination of the entire group and of all the executive and administrative staffs. Indeed he conducted the entire business as though he was accountable to no one, as evidenced by his action in intercompany matters in respect of which the rights of third parties, such as the security holders and creditors of each unit, were completely ignored.

And then touching on the question of audit, which Mr. Marrinan was asking about, he expresses the opinion:

The frauds could not have been consummated without assistance—witting or unwitting—of some of his associates, including some of the officers of the holding and financial companies, nor could they have been concealed if either the audits of the companies had been coordinated under a single control, or if the audits, though not so coordinated, had been carried out in all cases with proper honesty, efficiency, and independence.

We know, of course, that the Swedish criminal courts have found that the Swedish auditors did not display those qualities. So that that at least is thoroughly established.

It is apparent that the employment of different auditors for different closely associated companies, restrictions in the scope of examinations, subserviency if not complicity on the part of some of the employees and some of the auditors, and forgery of documents in order to meet demands for evidence confirmatory of book entries, all contributed to prevent such audits as were made from resulting in exposure.

When it came to the point, Kreuger was always prepared to forge a document, or to have some one forge it to produce to auditors to confirm a statement that appeared on the books.

Senator COSTIGAN. Has there been any confirmation of the rumors widely circulated at one time that Kreuger had forged Italian bonds?

Mr. MAY. Oh, yes. I might have read you that paragraph of the report which shows that we have satisfied ourselves that the irregularities began at least as early as 1917 and assumed a large scale in 1923, culminating in the forgery of 21,000,000 pounds nominal value of Italian bonds. That was the climax.

Now that, I think, answers your question, Mr. Marrinan.

Mr. MARRINAN. Very well, Mr. May. It is my understanding that somewhere in this report the statement is made that the earnings of these companies going back over some 14½ years show a 1½ per cent average return on capital——

Mr. MAY. One and one-half per cent, yes.

Mr. MARRINAN. Both stocks and bonds, over that period?

Mr. MAY. Total capital invested.

Mr. MARRINAN. Was there any effort to segregate and get that figure for the period during which Kreuger was getting his principal financial support in the United States?

Mr. MAY. Well, this is a summary report. In the detailed reports for each company it is shown by years for the whole period of years.

Mr. MARRINAN. Were there any real earnings during the period, we will say, from 1929 on?

Mr. MAY. From 1929 on?

Mr. MARRINAN. Yes.

Mr. MAY. I would not like to say. Of course for 1931 there was a heavy loss, undoubtedly. I am not sufficiently familiar with the details myself to say. I have no first-hand knowledge.

Mr. MARRINAN. There are many factors involved and that would not, perhaps, be a true picture.

Mr. MAY. Yes.

Mr. MARRINAN. I have heard this entire Kreuger & Toll situation described or set up, rather, as a blind pool.

Mr. MAY. Well, that is rather a loose expression. I imagine that refers to the fact that Kreuger claimed that secrecy on his part was essential in regard to some of these most important transactions. Secret agreements which he could not disclose without bringing disastrous consequences to the company—loss of profits.

Mr. MARRINAN. He was paying earnings out of capital right along, was he not? By paying dividends I should say.

Mr. MAY. Yes, oh, yes.

Mr. MARRINAN. There is a certain similarity then to the Ponzi affair?

Mr. MAY. Oh, yes; he had the same idea only on a much larger scale.

Mr. MARRINAN. I take it from your statement, Mr. May, that your firm has taken a very strong position against such set-ups as we have here, for one reason on the ground of its great secrecy?

Mr. MAY. My personal judgment on it concurs with what my partner expresses here, that if there is secrecy as to the way the money is being spent, a large part of it—there are certain amounts that you can not get full details of, but where they assume major proportions that it does not seem to me that that kind of security is a proper thing for the ordinary investor. I do not know a similar case to this where earnings from sources that could not be fully divulged from every aspect constituted any material element of the situation. This is an absolutely unique case, and I think for that reason there is danger of legislating for it because I do not suppose there has been anything to compare with it since the South Sea Bubble.

Mr. MARRINAN. You do not believe that there is any comparability between this situation and its impenetrability on account of secrecy, and certain very complex holding company situations in the United States which are exceedingly difficult to get into?

Mr. MAY. They are difficult to unravel. But there isn't any ultimate secrecy. A painstaking person will always be permitted to get to the bottom of it. Of course I think the trouble with that is mainly that it is an inverted pyramid. That is quite a different phenomenon, to my mind.

Mr. MARRINAN. They are penetrable to the accountant, but are they penetrable to the average stockholder or to the public?

Mr. MAY. You know life is getting too complicated for the ordinary individual in every way, I think.

Mr. MARRINAN. Mr. May, it is my understanding that your firm was retained by the International Telephone & Telegraph Co. to make an investigation of certain misrepresentations involved in the so-called Ericsson Telephone deal. Is that true?

Mr. MAY. Well, they were not known to be misrepresentations when we started to investigate them.

Mr. MARRINAN. They were not known?

Mr. MAY. No. There were certain representations made, as is customary in such contracts. The contracts are based on certain representations. And if those representations on verification fail of substantiation then the deal is off. That is a very common form. And we went up to find whether the representations were or were not true.

Mr. MARRINAN. Did you find certain misrepresentations?

Mr. MAY. The first important point I think that our people discovered was that money that was shown in the statement as cash in bank was actually money due from some companies in the Kreuger group, and we formed the opinion very rapidly that that was not necessarily identical with cash.

Mr. MARRINAN. All this led to the rescission of that contract, did it not?

Mr. MAY. Yes.

Mr. MARRINAN. When was this discovery made, Mr. May?

Mr. MAY. I believe the first word of it came through about the 20th of February, 1932.

Mr. MARRINAN. The 20th of February?

Mr. MAY. Yes.

Mr. MARRINAN. Was this information immediately communicated to the I. T. & T. people?

Mr. MAY. Yes.

Mr. MARRINAN. Would you care to state what action they took?

Mr. MAY. I do not know myself actually, because I went myself to Europe afterwards and I have no first-hand knowledge of what happened.

Mr. MARRINAN. Am I correct, Mr. May, in the statement that for a good many years your firm has been consulting accountants for the New York Stock Exchange?

Mr. MAY. For some years. I do not know quite how many. Three or four, perhaps.

Mr. MARRINAN. This may be an uninformed question. Are you obligated in any way by reason of that consulting relationship to communicate information of such character as you developed in this I. T. & T. deal to the officers of the New York Stock Exchange?

Mr. MAY. Oh, no. We have no right to do so.

Mr. MARRINAN. You have no right to do so?

Mr. MAY. Oh, no. Ours is merely a retainer to give them advice when they ask for it.

Mr. MARRINAN. It is my understanding that the New York Stock Exchange's recent ruling with respect to independent audits provides that this regulation is applicable to all new applications for listing, and effective July 1; am I correct in that statement?

Mr. MAY. Yes; I understand so.

Mr. MARRINAN. Were you consulted or did you participate in the various discussions which led up to that?

Mr. MAY. Yes.

Mr. MARRINAN. How long has this regulation been under consideration?

Mr. MAY. Oh, a matter of months—several months. I think the first I heard of it was about late last summer.

Mr. MARRINAN. Are there any practical accounting reasons for the long notice—that is, until July 1—before the regulation becomes effective?

Mr. MAY. Well, I do not think that is an unreasonably long notice in view of the comparative novelty of the development taken as a whole, and I do not think it has any very great practical significance because I do not imagine the new listings would be so very important in the next six months.

Mr. MARRINAN. I do not mean to put any emphasis on the matter one way or another by my question. Are you acquainted with any technical difficulties, Mr. May, confining yourself wholly to accounting, in the way of applying this rule to all issues at present listed on the exchange?

Mr. MAY. All issues—from an accounting standpoint—let me see. It might be a little difficult probably to handle the work competently if it extended to all the railroads. But generally speaking since they have had Interstate Commerce regulation they have avoided the expense of an independent audit as well. So that there are not many railroad auditors going about in the country to-day. Professional firms are not specially well equipped to handle a large number of new railroad audits, but otherwise it would be merely a matter of time.

Mr. MARRINAN. Then with the reservation on the point of railroads, you believe that there are facilities in accounting to proceed with the application of that regulation to all listed issues, of course keeping out of your statement any suggestion that there are not other difficulties in the way?

Mr. MAY. Oh, yes. But whether there are no other difficulties I do not attempt to say. But I should say, leaving out the railroads and a few special companies, there must be between 80 and 90 per cent already audited, so that making it universal would not unduly add to the burden.

Mr. MARRINAN. We of course are searching the picture here, Mr. May, for any safeguards that may be discovered in this Kreuger & Toll secured debenture issue situation in behalf of stockholders or investors. Would you say that in the field of accounting, and confining yourself wholly to the secured debenture issue, any adequate safeguards were set up in the matter of accounting?

Mr. MAY. I am not familiar with that particular issue. I have seen the prospectus, but I have not carefully studied it. I do not know what kind of protection there was, if any.

Mr. MARRINAN. There was no audit, Mr. May, of any kind, as nearly as we can ascertain. Would you think it possible to keep faith with investors without an audit?

Mr. MAY. In 1929; yes. To-day, perhaps not. Then I would say, especially with a security issue, I would not have thought that an audit was a normal part of the protective machinery that was provided. That is one of the good things that I think has come out of this. That people have realized that, however trustworthy people may seem to be, some objective study is eminently desirable. In fact, the whole advance of accounting in this country is marked by a series of events like this. The Claflin incident gave tremendous impetus to accounting. Banks in those days used to say that they would not give that for an audit certificate when they had a name like Claflin on the papers. Now they have come to find that, even though it may be only one case out of a hundred, it may sometimes be a valu-

able additional protection. And I think it has developed fairly logically and fairly satisfactorily.

Of course, all these things are a question of balancing risks against costs. If you create a machinery of protection that is unduly expensive, you kill industry and you put a burden on new financing that is out of proportion to its value. It is a very nice question of adjusting the degree of precaution to the reasonable expense. And you will always find some outstanding cases where an exceptionally clever crook will beat the precautions that are, as a practical matter, advisable for the general run of business. It is no good legislating to surround every transaction with every precaution that seems necessary when you are dealing with a supercrook. And if you did so in ordinary banking, you would make ordinary banking out of the question. And if you take every precaution, you will realize that there will be a certain amount that will slip through in spite of the high degree of protection that you put forth.

Mr. MARRINAN. By that statement you do not wish to be understood as minimizing the recommendations that you have made in your report?

Mr. MAY. Not at all. I think those are well within the limits, and I think if I should be erring I should err on the side of a little extra precaution. But at the same time it would be disastrous to attempt to weigh down business with precautions that would be very expensive and in ninety-nine cases out of a hundred would be supererogatory.

Mr. MARRINAN. I believe, gentlemen, that I should tell the members of the committee that Mr. May came out of a sick bed to-day to make an appearance, and in so far as I am qualified to speak I think he has been most helpful.

The CHAIRMAN. Thank you, Mr. May.

That will be all for to-day. The committee will meet in the morning at 10 o'clock in this room, and Doctor Winkler will be the first witness.

(Thereupon, at 4.50 o'clock p. m., Wednesday, January 11, 1933, an adjournment was taken until 10 o'clock a. m. the next day, Thursday, January 12, 1933.)

AKTIEBOLAGET KREUGER & TOLL AND LEE, HIGGINSON TRUST CO., AS TRUSTEE, AND LEE, HIGGINSON & CO., AS FISCAL AGENT

DEBENTURE AGREEMENT DATED MARCH 1, 1929

($50,000,000 5 per cent secured sinking fund gold debentures, dated March 1, 1929; due March 1, 1959; interest payable March 1 and September 1, principal and interest payable at the offices of Lee, Higginson & Co. in New York, Boston, and Chicago)

This agreement dated the 1st day of March 1929, made in the city of Paris, France, by and between Aktiebolaget Kreuger & Toll, a limited liability company duly organized and existing under the laws of the Kingdom of Sweden, having its principal office in Stockholm, Sweden (hereinafter called Kreuger & Toll Co. or the company), party of the first part, Lee, Higginson Trust Co., a corporation organized under the laws of the Commonwealth of Massachusetts, having its principal office in the city of Boston, Mass. (hereinafter called the trustee), party of the second part, and Lee, Higginson & Co., a copartnership having offices in the city of Boston, Mass., in the city of Chicago, Ill., and in the borough of Manhattan, city and State of New York (hereinafter called the fiscal agent), party of the third part:

Whereas, the company is duly authorized by law to borrow money and to issue its obligations, secured and unsecured, and to mortgage, hypothecate, and pledge its properties in order to secure the payment of such obligations; and

Whereas, the company has determined to create and issue debentures as in this agreement provided, to be known as "secured sinking-fund gold debentures," (hereinafter called "Secured debentures" and any one of which being hereinafter called a "Secured debenture"), without limit as to aggregate principal amount and which may be issued in one or more different series as hereinafter provided, of which $50,000,000 principal amount, are to be issued forthwith upon the execution and delivery of this agreement; and

Whereas, the company has duly authorized the execution and delivery of this agreement and the form, terms, and conditions hereof, for the purpose of securing the payment of the principal of, the premium, if any, and interest on all secured debentures at any time outstanding equally and ratably, without priority or distinction and irrespective of the dates of issue or maturity thereof; and

Whereas, the secured debentures and coupons to be attached thereto and the certificate of authentication by the trustee to appear thereon are to be substantially in the following forms respectively (the blanks therein to be appropriately filled in from time to time), with appropriate omissions, insertions, and variations, as may be from time to time determined by the company:

[Form of secured debenture]

(KREUGER & TOLL CO., STOCKHOLM, SWEDEN, (AKTIEBOLAGET KREUGER & TOLL))
PER CENT SECURED SINKING FUND GOLD DEBENTURE

Due———
No. ——— $———

Kreuger & Toll Co. (Aktiebolaget Kreuger & Toll, a limited liability company, duly organized and existing under the laws of the Kingdom of Sweden, hereinafter called the company), for value received hereby promises to pay to the bearer on ——— or earlier as hereinafter provided, the sum of $ ——— in gold coin of the United States of America of or equal to the standard of weight and fineness existing March 1, 1929, at the office of the fiscal agent, Lee, Higginson & Co., a copartnership in the Borough of Manhattan, city and State of New York, or in the cities of Boston, Mass., or Chicago, Ill., in the United States of America, and to pay interest thereon from ——— at the rate of ——— per cent per annum semiannually on ——— and ——— in each year, in like gold coin of the United States, at any of said offices in the United States of America, until this debenture shall be paid or redeemed or the payment or redemption thereof provided for; but only upon the presentation and surrender of the interest coupons hereto annexed as they severally mature.

At the option of the holder, said payments of principal and/or interest will be made in like gold coin of the United States or in pounds sterling at the fixed rate of exchange of £205 for every $1,000 at the office of Higginson & Co., in London, England; or in like gold coin of the United States or in the national currency of the place of presentation at the buying rate of exchange for bankers' sight drafts for dollars on New York current on the date of presentation and surrender of this debenture and/or said interest coupons at the offices of the paying agents, appointed as provided in the agreement hereinafter mentioned, in Stockholm, Sweden; Amsterdam, Holland; and Basle, Switzerland.

Both the principal of and interest on this debenture shall be paid in time of war as well as in time of peace, without regard to the nationality or residence of the holder hereof, and without deduction or diminution for any taxes, imposts, levies, or duties of any nature now or at any time hereafter levied or imposed by the Kingdom of Sweden or by any taxing authority thereof or therein, provided the holder hereof is not a resident of the Kingdom of Sweden, all as provided in the agreement hereinafter mentioned.

This debenture is one of the ——— per cent (— per cent) debentures due ——— of an authorized issue of debentures of the company known as secured sinking-fund gold debentures, and herein termed "secured debentures" unlimited as to the aggregate principal amount at any one time outstanding and issued or to be issued under and equally secured by an agreement dated March 1, 1929, made by the company, Lee, Higginson Trust Co., as trustee, and Lee, Higginson & Co., as fiscal agent, pursuant to the terms of which the company has deposited with the trustee and/or with the depositary therein named and has assigned to the trustee certain securities, bonds, notes, obligations, stock, and other property for the further security of the holders of secured debentures. For a description of the nature and extent of the security and of the rights of the holders of the

secured debentures and of the trustee in respect thereof and the terms and conditions upon which secured debentures may be issued, and upon which the securities and property deposited as security for the secured debentures may be withdrawn or changed, reference is made to said agreement.

This debenture is entitled to the benefits of the sinking fund provided in said agreement. In case additional secured debentures shall be issued, the sinking-fund payments may be adjusted, as provided in said agreement.

This debenture is subject to redemption at the option of the company at any time prior to maturity at 105 per cent of the principal amount thereof, together with interest accrued to the date fixed for such redemption, upon 30 days' prior notice, as provided in said agreement, by publication once a week for two successive calendar weeks in a daily newspaper of general circulation printed in the English language and published in the Borough of Manhattan, city and State of New York; the first publication to be not less than 30 days nor more than 60 days prior to the designated redemption date.

In case an event of default, as defined in said agreement, shall occur, the principal of all secured debentures issued thereunder may be declared or may become due and payable prior to the maturity thereof in the manner and with the effect provided in said agreement.

As provided in said agreement, secured debentures of this issue of the denomination of $1,000, or $500, at any time outstanding, when surrendered with all unmatured coupons attached, and upon the payment of charges, if required, may be exchanged for an equal aggregate principal amount of secured debentures of the other denomination of the same issue with all unmatured coupons attached.

No recourse shall be had for the payment of the principal of or the premium, if any, or the interest on this debenture, or for any claim based hereon or otherwise in respect hereof, or on said agreement under which this debenture is issued, against any incorporator or against any past, present, or future shareholder, participating debenture holder, officer or director of the company, or of any successor corporation, directly or indirectly, whether by virtue of any constitution, statute, or rule of law or by the enforcement of any assessment or penalty, or otherwise, any and all such liability being, by the acceptance and as part of the consideration for the issuance hereof, expressly waived and released.

This debenture is, and is intended by the parties hereto to be, a New York contract, and shall be performed, governed, and construed in accordance with the laws of the State of New York.

The company recognizes that the trustee is the general representative and attorney of all the holders of the debentures and, except as otherwise provided in the agreement, may institute and carry on in their behalf all and any legal, equitable, administrative, or other appropriate or necessary proceedings for the enforcement of the rights of said debenture holders, without being required to produce the debentures.

This debenture and the coupons appurtenant hereto shall pass by delivery. Each successive holder of this debenture by the acceptance hereof agrees to this provision and invites all other persons to rely thereon.

This debenture and the coupons appurtenant hereto shall not be valid or become obligatory for any purpose unless this debenture shall have been authenticated by the execution of the certificate hereon indorsed by the trustee under said agreement.

In witness whereof, Aktiebolaget Kreuger & Toll has caused this debenture to be signed and sealed in its name by one of its directors or deputy directors thereunto duly authorized, and coupons for said interest bearing the facsimile signature of one of its duly authorized directors or deputy directors to be attached hereto as of the first day of March, 1929.

AKTIEBOLAGET KREUGER & TOLL,
By ——— ———, *Director.*

FORM OF INTEREST COUPON

No._____ $_____

On the _____ day of _____, 19__, unless the secured debenture hereinafter mentioned shall have been called for previous redemption, and payment duly provided therefor, Aktiebolaget Kreuger & Toll will pay to bearer at any of the offices of the fiscal agent, Lee, Higginson & Co., in the cities of New York, Boston, and Chicago, in the United States of America, on surrender of this coupon ($_____) in gold coin of the United States of America of or equal to the standard of weight and fineness existing on March 1, 1929, without deduction or diminution for any

taxes, imposts, levies, or duties of any nature now or at any time hereafter levied or imposed by the Kingdom of Sweden or by any taxing authority thereof or therein, provided the holder hereof is not a resident of the Kingdom of Sweden, all as in said secured debenture provided, being six (6) months' interest then due on its $_____ per cent secured sinking-fund gold debenture due _____, No. _____.

At the option of the holder the interest represented by this coupon is payable in like gold coin of the United States or in pounds sterling at the fixed rate of exchange of £205 for every $1,000, at the office of Higginson & Co. in London, England; or in like gold coin of the United States or in the national currency of the place of presentation at the buying rate of exchange for bankers' sight drafts for dollars on New York current on the date of the presentation and surrender of this coupon at the offices of the paying agents, appointed as provided in the agreement securing said secured debenture, in Stockholm, Sweden; Amsterdam, Holland; and Basle, Switzerland.

——— ———, *Director.*

FORM OF TRUSTEE'S CERTIFICATE

This is one of the secured debentures referred to in the within-mentioned agreement.

LEE, HIGGINSON TRUST CO., *Trustee,*
By ——— ———, *Authorized Officer.*

FORM OF EXCHANGEABILITY LEGEND FOR REVERSE OF DEBENTURES

As provided in the within-mentioned agreement, secured debentures of the denomination of $1,000 or $500, at any time outstanding, when surrendered with all unmatured coupons attached and upon the payment of charges, if required, may be exchanged for an equal aggregate principal amount of secured debentures of the other denomination of the same issue, with all unmatured coupons attached.

Whereas all acts, conditions, and things necessary to make the secured debentures, when executed by the company and authenticated by the trustee, and the coupons thereto attached to be valid, binding, and legal obligations of the company and to make this agreement a valid and binding agreement for the enforcement of the payment of the secured debentures and the interest thereon, have been done and performed, and the execution and issue of the secured debentures and the execution and delivery of this agreement in all respects have been duly authorized.

Now, therefore, this agreement witnesseth:

That in consideration of the premises and of the sum of $1 lawful money of the United States of America to the company duly paid by each of the parties hereto at or before the execution and delivery of this agreement and of the acceptance of the secured debentures by the respective holders and of other good and valuable consideration, the receipt whereof is hereby acknowledged, and in order to secure the payment of the principal of and premiums, if any, and interest on the secured debentures now authorized, issued, and outstanding hereunder, as well as of or on any secured debentures which may hereafter from time to time be authorized, issued, and outstanding hereunder according to their tenor and effect and the terms of this agreement and to secure the performance and observance of all of the covenants and conditions therein or herein contained, the company has executed and delivered this agreement and has caused to be delivered to the trustee and/or to the Skandinaviska Kreditaktiebolaget of Stockholm, Sweden, as depositary hereunder, and does hereby assign, transfer, mortgage, hypothecate, and pledge unto the trustee, the following described property (herein with all other property at any time deposited and assigned, transferred, mortgaged, hypothecated, and pledged hereunder or intended so to be, and all money and property and the cash and other proceeds of or substitutions for any of the foregoing at any time deposited, assigned, transferred, mortgaged, hypothecated, and pledged hereunder or intended so to be, or from time to time held by the depositary hereunder, generally referred to as the "deposited property") namely:

$7,000,000 Kingdom of the Serbs, Croats, and Slovenes 6¼ per cent bonds, due 1958.
$6,000,000 Republic of Latvia 6 per cent bonds, due 1964.
$5,100,000 Republic of Poland 7 per cent bonds, due 1945.
$1,973,275 Republic of Ecuador 8 per cent bonds, due 1953.

$1,000,000 mortgage bank of Ecuador 7 per cent bonds, due 1949 (guaranteed by the Republic of Ecuador).
£979,902 Republic of Greece 8½ per cent bonds, due 1954.
£380,690 Kingdom of Rumania 4 per cent bonds, due 1968.
344,000,000 francs Republic of France 3 per cent and 4 per cent rentes.
$2,000,000 Kingdom of Rumania 7 per cent bonds, due 1959.
12,000,000 reichsmarks Prussian mortgage bank 8 per cent bonds, due 1959.
$12,000,000 Hungarian land reform mortgage 5½ per cent bonds, due 1979.
16,000,000 belgas par value of Belgian National Railways Co. participating preferred stock.

Together with the income, issues, and profits thereof and of every part and parcel thereof; and all of the estate, right, title, interest, property, claim, and demand of every nature, kind, character, and description whatsoever which the company now has or hereafter may have in law, equity, or otherwise in and to the same and every part and parcel thereof:

To have and to hold all and singular said deposited property unto the trustee, its successors and assigns, forever, but, in trust, nevertheless, for the equal and proportionate benefit of all the present and future holders of the secured debentures issued and to be issued under this agreement and of the bearers of the coupons thereunto belonging, without any preference, priority, or distinction whatever of any one secured debenture or coupon over any other secured debenture or coupon by reason of priority in the issue, sale, or negotiation thereof, or otherwise, except as provided in section 1 of Article X of this agreement.

And it is hereby covenanted and declared that the terms and conditions upon which the secured debentures with the coupons for interest are to be issued, authenticated, and delivered and the trusts and conditions upon which the deposited property is to be held and disposed of are as follows:

ARTICLE I

FORM, AMOUNT, EXECUTION, DELIVERY, AND AUTHENTICATION OF SECURED DEBENTURES

SECTION 1. From time to time secured debentures signed on behalf of the company by one of its directors or deputy directors thereunto duly authorized and sealed with its corporate seal and delivered to the trustee for authentication by it shall thereupon, subject to the provisions of Article III, and not otherwise, be authenticated by the trustee and when so authenticated shall be delivered to the company or on its written order.

The authorized aggregate principal amount of secured debentures which may be executed by the company and authenticated by the trustee shall not be limited, except as the company may otherwise determine in respect of any particular series at the time of the initial issue thereof.

The secured debentures shall bear interest from such dates at such rates and payable on such semiannual dates and shall mature at such time or times as may be fixed and determined by the company and as shall be stated therein and such secured debentures and the coupons, if any, attached thereto shall be in such form and contain such provisions not inconsistent with the provisions of this agreement and may have annexed to them such warrants as shall from time to time be determined by the company.

In case the directors or deputy directors of the company who shall have signed and sealed any of the secured debentures shall cease to be such directors or deputy directors before the secured debentures so signed and sealed shall have been actually authenticated and delivered by the trustee, such secured debentures may nevertheless be adopted by the company, issued, authenticated, and delivered as though the persons who had signed and sealed the same had not ceased to be directors or deputy directors of the company; and also any such secured debentures may be signed and sealed on behalf of the company by such persons as at the actual time of the execution thereof shall be the director or deputy director of the company thereunto duly authorized although at the date of such secured debentures any such person shall not have been a director or deputy director of the company. The coupons to be attached to such secured debentures shall be authenticated by the facsimile signature of any present or future director or deputy director and the company may adopt and use for that purpose the facsimile signature of any person who shall have been such director or deputy director, notwithstanding the fact that he may have ceased to be such director or deputy director at the time said secured debentures shall be actually authenticated and delivered.

Only such secured debentures as shall bear thereon indorsed an authentication substantially in the form hereinbefore recited, executed by the trustee, shall be valid and obligatory for any purpose or shall be secured by this agreement or entitled to any right or benefit hereunder and such authentication by the trustee upon any such secured debenture shall be conclusive evidence that the secured debenture so authenticated has been duly issued under and that the holder is entitled to the security of this agreement and to the benefits hereof.

Before authenticating or delivering any secured debenture, all coupons then matured shall, except as provided in section 3 of this article, be detached and canceled and, on its written demand, delivered to the company.

SEC. 2. Secured debentures may be issued in series. The secured debentures of each series shall be distinctly designated and shall be in such amounts, with such maturity, rate of interest, redemption, conversion, and other provisions, not inconsistent with the provisions of this agreement, as shall be determined by the company at the time of the creation of any such series and expressed in the secured debentures of such series and in a supplemental agreement to be executed and delivered by the company to the trustee.

All secured debentures of the same series shall be identical in tenor and effect, except for the appropriate differences in form between coupon and registered secured debentures and between secured debentures of various denominations. From the secured debentures of any series there may be omitted or there may be inserted therein any provision for the reimbursement of, or the payment thereof either as to principal or interest, without deduction for any taxes, assessments, or governmental charges.

From the coupon secured debentures of any series there may be omitted or there may be inserted therein any provision for the exchangeability of such secured debentures of one denomination for secured debentures of another or of other denominations of the same series or for the registration of secured debentures as to principal or the exchangeability of such secured debentures for registered secured debentures and from the registered secured debentures of any series there may be omitted or there may be inserted therein any provision for the exchangeability of such registered secured debentures for coupon secured debentures. The secured debentures may also contain such further specifications, letters, numbers, legends, or indorsements as may be required in order to conform to any rule of any stock exchange or to conform to any usage in respect thereof.

SEC. 3. In case a secured debenture shall become mutilated or be destroyed, lost, or stolen, the company in its discretion may issue and thereupon the trustee shall authenticate and deliver a new secured debenture of like number, amount, tenor, and series in exchange and substitution for and upon cancellation of the mutilated secured debenture and its coupons, if any, or the mutilated registered secured debenture or in lieu of and substitution for the coupon secured debenture and its coupons, if any, or the registered secured debenture so destroyed, lost, or stolen which shall thereafter be deemed to have been canceled within the meaning of any provision of this agreement in respect of the cancellation of secured debentures. The applicant for such substituted secured debenture shall furnish to the company and the trustee and the fiscal agent evidence of the destruction, loss, or theft, which evidence shall be satisfactory to the company and the trustee and the fiscal agent, respectively, and said applicant shall also furnish indemnity satisfactory to the company and the trustee and the fiscal agent in their discretion and shall comply with such other reasonable regulations as they or any of them may prescribe. The trustee may authenticate and deliver such substituted secured debenture upon the written request of the company and shall incur no liability to anyone by reason of anything done or omitted by it in good faith under the provisions of this section. The company may require the payment of all reasonable expenses incurred by it or the trustee in connection with the issue of any new secured debenture under this section.

ARTICLE II

ISSUE OF FIRST SERIES DEBENTURES

SECTION 1. Forthwith upon the execution and delivery of this agreement the company may execute and deliver to the trustee $50,000,000 principal amount of secured debentures and thereupon and without further action on the part of the company, the trustee shall authenticate such secured debentures and deliver them to the company or upon its written order.

Said secured debentures shall be dated March 1, 1929, and shall mature on March 1, 1959, and shall be issued as coupon debentures in denominations of $1,000 and $500, shall bear interest at the rate of 5 per cent per annum from March 1, 1929, payable semiannually on the 1st days of March and September in each year and shall be substantially in the form hereinabove set forth. Said secured debentures or any additional secured debentures of the same series are hereinafter called "First series debentures."

SEC. 2. Without unreasonable delay the company shall cause definitive first series debentures to be prepared and executed. Until such definitive debentures can be prepared, the company may execute and deliver to the trustee and the trustee shall thereupon authenticate and deliver to the company or upon its order a temporary debenture or debentures of any denomination or denominations substantially of the tenor hereinbefore recited, with or without coupons, and with appropriate omissions, insertions, and variations as may be required. As soon as the definitive debentures shall have been prepared, the company shall upon surrender of any such temporary debenture with all unmatured coupons, if any, attached, at its own expense, execute and deliver to the trustee and upon the cancellation of such surrendered temporary debenture the trustee shall authenticate and deliver in exchange therefor a definitive debenture or debentures with all unmatured coupons attached for the same aggregate principal amount as the temporary debenture surrendered and of such denomination or denominations authorized hereby as may be requested by the holder of the temporary debenture so surrendered. Until exchanged for a definitive debenture or debentures every such temporary debenture shall be entitled to all the same rights and benefits under this agreement as the definitive debentures for which it is exchangeable. In case any interest shall be payable upon any temporary debenture payment thereof shall be made only upon the presentation of such temporary debenture for the indorsement of such payment thereon.

SEC. 3. In case any first series debentures, with all unmatured coupons attached, of the denomination of $1,000, or $500, shall be surrendered to the trustee in the city of Boston, Mass., or to the fiscal agent in the Borough of Manhattan, city and State of New York, for exchange for a like principal amount of first series debentures of the other of said denominations, the company shall execute and deliver to the trustee one or more new first series debentures of the denomination of $500 or $1,000 as the case may be, with all unmatured coupons attached, and the trustee shall, upon the cancellation of the first series debentures so surrendered, authenticate the new debenture or debentures and deliver them to the holder or holders of the first series debentures so surrendered. Upon any such exchange the company may at its option require the payment of a sum sufficient to reimburse it for any stamp tax or other governmental charge and for any other expense connected therewith, and also of a further sum, not exceeding $2, for each new first series debenture issued upon any such exchange.

ARTICLE III

THE DEPOSITED PROPERTY, CONVENANTS FOR THE MAINTENANCE THEREOF AND RIGHTS OF WITHDRAWAL THEREFROM AND SUBSTITUTION THEREFOR; WARRANTY AND GENERAL CONDITIONS FOR ISSUANCE OF SECURED DEBENTURES

SECTION 1. The company may at any time and from time to time deposit hereunder with the trustee or the depositary as part of the deposited property and as security for the secured debentures issued and to be issued under this agreement securities of the following character and description (herein called "eligible securities") or cash as hereinafter provided in section 3 of this Article III:

(1) Bonds or notes issued or guaranteed by any sovereign State, or any political subdivision thereof, including any municipality, having authority to issue or guarantee bonds or notes and having a population in excess of 300,000.

(2) Bonds or notes issued or guaranteed by any mortgage banking institution or institutions, society or societies (in which the company may but need not have a partial or controlling interest), and secured by mortgage on agricultural or city property or entitled by special law to priority on such property.

(3) Shares in railroad or other companies, a minimum dividend on which is guaranteed by any sovereign State.

SEC. 2. The company further covenants, subject, however, to the provisions of section 3 of this Article III, that it will hereafter deposit with the trustee or with the depositary eligible securities whenever at any time and from time to time it may be necessary or requisite to maintain a ratio of 120 per cent between the par

value in dollars (computed at par of exchange except as to any currencies which are then selling below par of exchange in terms of dollars of the Unied States of America and as to such currencies computed at current rates of exchange) of the eligible securities which are then on deposit under this agreement and which are not in default either in the payment of principal or interest, and the principal amount of all secured debentures at the time outstanding hereunder (such ratio being herein called the "required ratio of principal"), and/or to maintain a like ratio between the total annual interest and guaranteed dividends then being paid on the eligible securities then on deposit hereunder, after the deduction of all taxes, assessments, and governmental charges payable therefrom, in dollars (computed at par of exchange except as to any currencies which are then selling below par of exchange in terms of dollars of the United States of America and as to such currencies computed at current rates of exchange), and the aggregate interest payable annually on all secured debentures at the time outstanding hereunder (said ratio being hereinafter called the "required ratio of income"), provided, however, that the company shall not be required to deposit as aforesaid eligible securities to maintain said required ratio of principal and/or said required ratio of income except out of any eligible securities available for deposit which it or any subsidiary company or corporation wholly owned by it may then own or which it or any such subsidiary may thereafter acquire. The failure of the company to maintain the required ratio of principal and/or required ratio of income under the foregoing covenants shall not constitute an event of default under this agreement unless the company shall own or shall acquire eligible securities available for deposit and the company shall fail to deposit or cause the same to be deposited with the trustee or with the depositary as hereinbefore provided.

In the event of a deficiency in the required ratio of principal and/or the required ratio of income which shall not have been remedied by the company, the company covenants that if any of its wholly owned or substantially wholly owned subsidiaries owns or acquires eligible securities available for deposit, the company will exercise all diligent effort and take all such measures as may be appropriate and legally acceptable to cause such subsidiary to deposit such eligible securities with the trustee or with the depositary.

For the purpose of computing the required ratio of principal and/or the required ratio of income hereunder when any cash shall form part of the deposited property hereunder, the principal amount of all secured debentures at the time outstanding hereunder shall be deemed to be reduced by the amount of cash (computed at par of exchange except as to any currencies which are then selling below par of exchange in terms of dollars of the United States of America and as to such currencies computed at current rates of exchange) then forming part of the deposited property.

SEC. 3. The deposited property is and shall at all times remain subject to the right of the company to withdraw any part or portion thereof and to substitute for any part or portion or for all thereof other eligible securities or cash upon the following terms and conditions:

(*a*) The company may withdraw at any time or from time to time any part or portion of the deposited eligible securities provided such withdrawal shall not impair the required ratio of principal and/or the required ratio of income.

(*b*) The company may withdraw at any time or from time to time any part or portion or all of the deposited eligible securities and even though the required ratio of principal and/or the required ratio of income shall then be impaired, provided the company shall simultaneously deposit hereunder sufficient additional eligible securities so that as a result of such withdrawal and deposit neither the required ratio of principal nor the required ratio of income shall be further impaired. In case any of the eligible securities to be withdrawn under the provisions of this subdivision (*b*) shall then be in default in the payment of principal or interest the par value thereof shall nevertheless be included in determining whether such withdrawal will result in further impairing the required ratio of principal.

(*c*) The company may withdraw at any time or from time to time any part or portion or all of the deposited eligible securities, provided the company shall simultaneously deposit hereunder an amount of cash that will bear the same proportion to the principal amount of all secured debentures then outstanding hereunder as the aggregate par value in dollars (computed at par of exchange except as to any currencies which are then selling below par of exchange in terms of dollars of the United States of America and as to such currencies computed at current rates of exchange) of the eligible securities so to be withdrawn bears to the aggregate par value, computed in like manner, of all eligible securities on deposit hereunder immediately previous to such withdrawal.

(d) The company may withdraw at any time or from time to time any part or portion or all of the cash forming part of the deposited property, provided either (*a*) that as a result of such withdrawal the required ratio of principal and/or the required ratio of income shall not be impaired or (*b*) the company shall simultaneously deposit hereunder eligible securities equal in par value in dollars (computed at par of exchange except as to any currencies which are then selling below par of exchange in terms of dollars of the United States of America and as to such currencies computed at current rates of exchange) to 120 per cent of the cash so to be withdrawn, and currently paying interest and/or dividends at at least 120 per cent of the interest rate on the secured debentures unless some lower rate of interest and/or dividends shall be sufficient to maintain the required ratio of income, having regard to the aggregate income receivable from all the eligible securities then on deposit and the aggregate interest payable on all the secured debentures then outstanding.

SEC. 4. The company warrants that the securities deposited with the trustee and/or the depositary hereunder upon the execution of this agreement, and hereinbefore more particularly described, are eligible securities as in this article defined and that the aggregate par value thereof in dollars (computed at par of exchange except as to any currencies which are at the date of the execution hereof selling below par of exchange in terms of dollars of the United States of America and as to such currencies computed at current rates of exchange) is equal to at least 120 per cent of the aggregate principal amount of the $50,000,000 first series debentures to be initially issued hereunder, and that the total annual interest and guaranteed dividends being paid thereon at the date of the execution of this agreement, after deducting all taxes, assessments, and governmental charges payable therefrom, in dollars (computed at par of exchange except as to any currencies which are at the date of the execution hereof selling below par of exchange in terms of dollars of the United States of America and as to such currencies computed at current rates of exchange) is not less than 120 per cent of the annual interest payable on the $50,000,000 principal amount first series debentures to be initially issued hereunder.

SEC. 5. The trustee shall not authenticate or deliver to the company any secured debentures in addition to the $50,000,000 principal amount of first series debentures initially issued hereunder, if the authentication and delivery of such additional secured debentures shall result in impairing the required ratio of principal and/or the required ratio of income of the eligible securities then on deposit hereunder.

SEC. 6. In any case in which the trustee or the depositary desires proof as to whether any securities tendered by the company for deposit hereunder are eligible securities and/or any fact in respect of the required ratio of principal and/or the required ratio of income, the trustee and/or the depositary may rely upon a certificate of the company stating (*a*) that such securities are eligible securities, (*b*) in reasonable detail the nature of the securities, the par amount of the same, the rate of interest or guaranteed dividends thereon and the taxes, assessments, and governmental charges payable therefrom, the name and location of the sovereign state, political subdivision, or municipality or of the mortgage banking institution or society or of the company issuing or guaranteeing the same; the source of the information that such sovereign state, political subdivision, or municipality has a population in excess of 300,000 or that the obligations of such mortgage banking institution or society are secured by mortgages on agricultural or city property or are entitled by special law to priority on such property;

The trustee and/or the depositary shall be fully protected in relying on any such certificate of the company, but it may in its discretion require from the company such opinion or opinions of counsel or proof that the securities so tendered for deposit hereunder are eligible securities, as the trustee and/or the depositary may deem desirable.

ARTICLE IV

SINKING FUND

SECTION 1. As and for a sinking fund for the retirement of the first series debentures, the company covenants and agrees that it will from time to time pay to the fiscal agent, at the office of the fiscal agent in the borough of Manhattan, city and State of New York, the amounts in this Article IV hereinafter stated, that is to say:

(1) Semiannually on March 1 and September 1 in each year, beginning on September 1, 1929, an amount equivalent to not less than three-quarters of 1 per cent of the principal amount of first series debentures originally issued, whether

or not then outstanding unless retired in accordance with the provisions of Article V of this agreement, plus an amount equal to six months' interest at the rate of 5 per cent per annum on (1) the principal amount of all first series debentures theretofore retired by operation of the sinking fund and (2) the unexpended cash balance, if any, then in the sinking fund; said payments to be made either in cash or in first series debentures taken at their principal amount.

(2) From time to time, upon the written request of the fiscal agent as hereinafter provided, the amount of accrued interest and the amount of any premium paid by the fiscal agent on any first series debentures purchased by the fiscal agent for the sinking fund as hereinafter provided.

(3) From time to time, upon the written request of the fiscal agent as hereinafter provided, the amount required for the payment of interest and premium on any first series debentures called for redemption in accordance with the provisions of this Article IV of this agreement.

(4) From time to time, upon the written request of the fiscal agent as hereinafter provided, the amount, if any, required under the provisions of section 5 of this Article IV as and for a sinking fund in respect of first series debentures in addition to the $50,000,000 principal amount thereof initially issued.

The company covenants and agrees that the amounts to be paid by it for the account of the sinking fund as in this Article IV provided will be sufficient to retire the entire issue of $50,000,000 principal amount of first series debentures initially issued by the date of the maturity of the first series debentures, namely: March 1, 1959.

SEC. 2. All moneys from time to time received by the fiscal agent for account of the sinking fund shall be held by the fiscal agent for the purposes in this Article IV stated and shall be applied by it as follows:

As soon as practicable after the receipt by the fiscal agent of any moneys for account of the sinking fund, such moneys shall be applied by the fiscal agent to the purchase of first series debentures at public or private sale at the lowest price obtainable in the exercise of reasonable diligence, not exceeding their redemption price to an amount equal, as nearly as may be (exclusive of premium and of accrued interest on the first series debentures so purchased) to the amount of the sinking-fund moneys so held by the fiscal agent. From time to time as first series debentures are purchased by the fiscal agent for the sinking fund aforesaid, the fiscal agent shall notify the company thereof in writing, stating the amount of first series debentures so purchased, the amount of the purchase price thereof and the amount of interest accrued on the first series debentures so purchased at the time of the purchase thereof, and upon the receipt by the company of any such notice the company will promptly pay to the fiscal agent the amount of such accrued interest and also the amount of any premium paid by the fiscal agent on any first series debentures purchased by it at more than 100 per cent of the principal amount thereof.

If on the 1st day of January or of July, in any year, sinking-fund moneys to the amount of $50,000 or more shall remain in the hands of the fiscal agent and shall not have been applied by it to the purchase of first series debentures for the sinking fund as aforesaid, the fiscal agent shall notify the company accordingly, in writing or by cable, stating the amount of sinking-fund moneys so remaining in the hands of the fiscal agent, the amount of first series debentures to be called for redemption and any amount required to be paid by the company on the next succeeding interest payment date for interest and premium on the first series debentures then to be called for redemption, and requesting the company to call for redemption on said next succeeding interest payment date first series debentures to the amount next hereinafter stated and to pay to the fiscal agent the amount required for the payment of interest and premium thereon, and the company shall thereupon call for redemption on the next succeeding 1st day of March or of September, as the case may be, first series debentures to a principal amount sufficient (exclusive of premium and of accrued interest) to exhaust as nearly as may be, the amount of the sinking-fund moneys remaining in the hands of the fiscal agent, and shall pay to the fiscal agent at least two days prior to the date for which such first series debentures shall have been so called for redemption the amount of the premium and of the interest accrued to such redemption date on the first series debentures so called for redemption. In case the company shall fail to call for redemption any first series debentures as above provided, the fiscal agent is hereby irrevocably authorized on behalf and in the name of the company and at its expense to make such call for redemption of any such first series debentures. Except as otherwise in this article expressly provided, the method of calling first series debentures for the account of the sinking fund shall in all

respects be similar to the method of calling first series debentures for redemption as hereinafter provided in Article V of this agreement.

The amount of sinking fund moneys so remaining in the hands of the fiscal agent required for the payment and redemption of the first series debentures so called for redemption, together with the amount of the premium and of the accrued interest received by the fiscal agent from the company as aforesaid, shall be applied by the fiscal agent on and after such redemption date to the redemption of the first series debentures which shall have been called for redemption upon the surrender and presentation thereof to the fiscal agent for such purpose.

If, on the 1st day of January or July in any year, the amount of the sinking fund moneys remaining in the hands of the fiscal agent and not applied prior to such date to the purchase of first series debentures for the sinking fund, shall be less than the sum of $50,000, such moneys shall be retained by the fiscal agent and applied to the purchase of first series debentures for the sinking fund at public or private sale at the lowest prices obtainable in the exercise of reasonable diligence not exceeding their redemption price, to the extent that the same can be so purchased and to the extent that the same shall not be so applied, shall remain in the sinking fund and be added to the next installment of the sinking fund received by the fiscal agent from the company and shall be applied by the fiscal agent as a part of the sinking fund as above provided. The company shall pay to the fiscal agent, from time to time, in the same manner as hereinabove provided, the amount of any accrued interest and the amount of any premium paid by the fiscal agent upon the purchase of any first series debentures as in this paragraph provided.

SEC. 3. Any interest allowed by the fiscal agent on any sinking fund moneys held by it shall from time to time, so long as the company shall not be in default under this agreement, be paid over by the fiscal agent, or credited by it, to the company upon its written request.

SEC. 4. All first series debentures, together with the coupons appurtenant thereto, that shall be purchased by the fiscal agent for the sinking fund, or that shall be surrendered by the company for the sinking fund, or that shall be redeemed as above provided, shall be canceled by the fiscal agent and shall be delivered by it to the trustee which shall record upon its records the fact of such cancellation and the serial numbers of the first series debentures and appurtenant coupons so canceled, and shall deliver such canceled first series debentures and appurtenant coupons to the company or upon its written order. No other first series debentures or coupons shall be issued under this agreement in place of any first series debentures or coupons purchased or redeemed as provided in this Article IV. The trustee may accept and rely upon the certificate or certificates of the fiscal agent that such first series debentures and coupons have been duly redeemed and paid as herein provided and shall be fully protected in relying thereon.

SEC. 5. If at any time or from time to time the company shall issue and the trustee shall authenticate and deliver any first series debentures in addition to the $50,000,000 principal amount initially issued, the payments to be made by the company to the fiscal agent under the provisions of section 1 of this Article IV shall be augmented by an amount to be determined by the fiscal agent and in its opinion sufficient to retire on or before the maturity of such first series debentures the entire additional amount so issued by the company.

SEC. 6. If at any time or from time to time the company shall issue and the trustee shall authenticate and deliver under any agreement supplemental to this agreement any secured debentures of a series other than the first series, the company covenants that such supplemental agreement shall contain provisions requiring the company to pay to the fiscal agent as and for a sinking fund amounts to be determined by the fiscal agent and in its opinion sufficient to retire on or before maturity the entire principal amount of the series issued or to be issued under such supplemental agreement.

ARTICLE V

REDEMPTION OF SECURED DEBENTURES

SEC. 1. Secured debentures of any series which by their terms are redeemable shall be subject to redemption at the option of the company at any time prior to maturity as hereinafter provided as a whole or in part at such rate or price as may be expressed in such secured debentures or in this agreement or any supplemental agreement under which any such secured debentures may be issued, together with interest accrued to the date of redemption.

First series debentures shall be subject to redemption at the option of the company at any time prior to maturity as hereinafter provided as a whole or in part at the rate or price of 105 per cent of the principal amount thereof, together with interest accrued to the date of redemption.

In case the company shall elect to redeem any or all of the secured debentures, 30 days' prior notice of such election shall be given by publication once a week for two successive weeks in daily newspapers printed in the English language published and of general circulation in the Borough of Manhattan, city and State of New York, and in the cities of Boston, Mass., and Chicago, Ill., the first publication to be not less than 30 nor more than 60 days prior to the designated redemption date. Such publication shall state such election on the part of the company and that interest on the secured debentures called for redemption will cease on the designated redemption date and requiring that the secured debentures called for redemption be then presented for payment and redemption at any one of the places at which the same are expressed to be payable. In case less than all of the outstanding secured debentures shall be called for redemption, the serial numbers of the secured debentures so called for redemption shall be determined by lot by the fiscal agent (in any manner deemed by it to be fair) upon the written request of the company, and the serial numbers of the secured debentures so called for redemption shall be stated in the notice of redemption to be given as herein provided. No irregularity therein shall affect the validity of any redemption proceedings. Notice of redemption having been given by publication as above provided, the secured debentures called for redemption shall, on the day designated in such notice, become due and payable at the rate at which the same shall have been called for redemption in accordance with the provisions contained in this agreement and in the secured debentures, including accrued interest thereon to the date of redemption designated; and, unless the company shall make default in the payment of the amount payable on any of the secured debentures so called for redemption, from and after the date of redemption so designated, interest on the secured debentures so called for redemption shall cease, and on presentation, in accordance with said notice, at any of the places at which the same are expressed to be payable, of the secured debentures so called for redemption, with all coupons maturing on and after said redemption date, said secured debentures shall be paid by the company at the rate aforesaid including accrued interest to such redemption date. In the case of redemption of the secured debentures as a whole the company, in lieu of cash as above provided, may surrender to the fiscal agent secured debentures of the same series with all unmatured coupons attached and such secured debentures shall be taken at the principal amount thereof.

SEC. 2. If notice of redemption shall have been given as aforesaid, and if the company shall deposit with the fiscal agent an amount in cash sufficient to pay in full all secured debentures so called for redemption, any coupon for interest appertaining to any secured debenture so-called for redemption and purporting to mature after such date shall become and be null and void, and such deposit shall, as between the company, the trustee, the fiscal agent, and the holders of such secured debentures, constitute a full payment of each such secured debenture and of the interest accrued thereon to the date of redemption and a discharge of all obligations by the company on all coupons appertaining thereto then unmatured; and upon such deposit being made, all rights of the holder of any such secured debenture under this agreement (except the right to receive from the fiscal agent the amount so deposited with it for the redemption of such debenture) shall wholly cease and determine. Subject to the provisions of section 2 of Article VII of this agreement, all amounts so deposited with the fiscal agent for the redemption of secured debentures shall be deposited by the fiscal agent in its name with the trustee and shall be held solely for the purpose of paying the secured debentures so called for redemption at the redemption price thereof; and the fiscal agent, upon the presentation and surrender to it of any such secured debenture, together with the coupons appertaining thereto, purporting to mature on and after the redemption date, shall pay out of said funds to the holder of each such secured debenture the amount due thereon for principal and premium, together with the interest accrued on such secured debenture to the date of redemption. All secured debentures, together with the coupons appurtenant thereto, that shall be redeemed and paid shall be canceled by the fiscal agent and delivered by it to the trustee, which shall record upon its records the fact of such cancellation and the serial numbers of the secured debentures and appurtenant coupons so canceled, and shall deliver such canceled secured debentures and appurtenant coupons to the company upon its written order. No other secured debentures or coupons shall be issued under this agreement in place of any secured

debentures or coupons redeemed as provided in this Article V. The trustee may accept and rely upon a certificate or certificates of the fiscal agent that such secured debentures and coupons have been surrendered for redemption as conclusive evidence of the fact of such redemption and payment, and shall be fully protected in relying thereon.

ARTICLE VI

FISCAL AGENT

SECTION 1. Lee, Higginson & Co., a partnership, doing business in the Borough of Manhattan, city and State of New York, in the city of Boston, Commonwealth of Massachusetts, and in the city of Chicago, State of Illinois, as said partnership may from time to time be constituted, and notwithstanding any change in the membership of said partnership, and the successor or successors of said partnership, shall be the fiscal agent under this agreement, and is hereby designated and appointed as such fiscal agent, and shall exercise all the powers herein granted to the fiscal agent. Said partnership or its successors may at any time, by notice in writing to the company and to the trustee, resign as fiscal agent hereunder. In the event of such resignation, or in the event that the fiscal agent for the time being shall become bankrupt or insolvent or be liquidated or dissolved or shall fail to perform its duties hereunder, the powers and duties of the fiscal agent hereunder shall forthwith (upon written notice by the company, delivered to the trustee) be exercised and performed by the trustee for the time being under this agreement and the fiscal agent ceasing to act as such, shall thereupon become obligated to pay over to the trustee all moneys then on deposit with said fiscal agent. In such event the trustee shall thereafter be entitled to receive all payments hereunder required to be made to the fiscal agent and shall use and apply all such payments as if the trustee had been initially appointed fiscal agent hereunder and all the provisions hereof with respect to the protection and duties of the fiscal agent shall thereafter apply to the trustee.

SEC. 2. If the company shall order payment stopped on any secured debenture and/or coupon, the fiscal agent shall not be liable if such secured debenture and/or coupon shall thereafter be paid by it inadvertently. If any secured debenture and/or coupon shall be issued by the company pursuant to section 3 of Article I of this agreement in lieu of any secured debenture and/or coupon alleged to have been destroyed, lost, or stolen, and thereafter the fiscal agent shall pay the original secured debenture and/or coupon so alleged to have been destroyed, lost. or stolen, the company, upon request of the fiscal agent, shall forthwith reimburse it for the payment thereof, whether or not any order for the stopping of payment on said secured debenture and/or coupon shall have been issued to the fiscal agent.

SEC. 3. Lee, Higginson & Co. or any member of said firm may itself or themselves acquire, own, hold, deal in, underwrite, and dispose of secured debentures and coupons and other securities of the company in the same manner and to the same extent and with like effect as though said firm was not fiscal agent under this agreement.

SEC. 4. The fiscal agent may, in its discretion, advise with counsel to be selected and employed by it at the expense of the company, and shall be fully protected in anything done or suffered by it in good faith in accordance with the opinion of such counsel.

The fiscal agent shall not be liable or responsible for the default, neglect, or misconduct of any agent or attorney appointed by it if such agent or attorney shall have been selected with reasonable care, nor for the default, negligence, or misconduct of the trustee, nor for the exercise of any discretion or power, nor for anything whatever in connection with this agreement or with the exercise of any of the rights, powers, and duties of the fiscal agent under this agreement, except only for its own individual willful misconduct or gross negligence.

SEC. 5. The company shall pay to the fiscal agent from time to time a reasonable compensation for all services rendered under this agreement, and also its reasonable expenses, charges, counsel fees, and other disbursements and those of its agents and attorneys, incurred in the performance of its powers and duties under this agreement, and agrees to indemnify and save harmless the fiscal agent against any liabilities which it may incur in the performance of its powers and duties under this agreement.

SEC. 6. In the event that the principal of all of the secured debentures at any time outstanding shall become due and payable by the terms thereof, and default shall be made in the payment of any part of such principal, or shall become due and payable by declaration of the trustee pursuant to the terms of section 2 of

Article X hereof, then, upon the written request of the trustee, the fiscal agent shall (after payment of all of the expenses, disbursements, liabilities, and compensation of the fiscal agent) pay over to the trustee any moneys at the time held by the fiscal agent under any of the provisions of this agreement, together with the interest, if any, accrued thereon, to be applied by the trustee pursuant to the provisions of section 11 of Article X hereof.

SEC. 7. Except as otherwise expressly provided herein, any moneys received by the fiscal agent, pursuant to the terms of this agreement, shall be held by it until required to pay out the same in conformity with the provisions of this agreement, but no interest shall be allowed by the fiscal agent on moneys received by it from the company for the payment of interest on the secured debentures or for the payment of the principal thereof or of the premium thereon.

ARTICLE VII

PAYMENT OF PRINCIPAL, PREMIUM, AND INTEREST ON SECURED DEBENTURES, PAYING AGENTS, ETC.

The company covenants with the trustee and the fiscal agent and with the respective holders from time to time of the secured debentures as follows:

SECTION 1. The company will duly and punctually pay the principal and/or interest on the secured debentures and the premium on any secured debentures which shall be called for redemption pursuant to the provisions of Articles IV and V at the times and places specified in said secured debentures and coupons and in this agreement. Said principal, premium, and interest shall be payable in the United States of America in gold coin of the United States of America of or equal to the standard weight and fineness existing on March 1, 1929. At the option of the holder of any such secured debenture or coupon said principal, premium, and interest shall be payable in like gold coin of the United States or in pounds sterling at the fixed rate of exchange of £205 for every $1,000 at the office of Higginson & Co. in London, England; or in like gold coin of the United States or in the national currency of the place of presentation at the buying rate of exchange for banker's sight drafts for dollars on New York current on the date of the presentation and surrender of said secured debentures and/or said coupons at the office of any paying agent appointed as hereinafter provided, in Stockholm, Sweden; Amsterdam, Holland; and Basle, Switzerland.

The company further covenants that the principal and/or interest on first series debentures shall be paid in time of war as well as in time of peace without regard to the nationality or residence of the holders thereof and without deduction or diminution for any taxes, imposts, levies, or duties of any nature now or at any time hereafter levied or imposed by the Kingdom of Sweden or by any taxing authority thereof or therein, provided the first series debenture or the coupon appertaining to any first series debenture so presented for payment shall be held by a person who is not a resident of the Kingdom of Sweden. The company will assume and pay any such taxes, imposts, levies, or duties which may be levied or imposed in respect of first series debentures and/or the coupons appertaining thereto held by persons who are not residents of the Kingdom of Sweden, and it will not require evidence of the residence of the holder of any such first series debenture and/or coupon upon the presentation thereof for payment, but will in the absence of proof to the contrary assume that such holder is a nonresident of the Kingdom of Sweden.

SEC. 2. Notwithstanding any provisions contained elsewhere in this agreement or in the secured debentures with respect to the place or places for the payment of the principal of and interest on said secured debentures, the company covenants that it will in any event pay or cause to be paid to the fiscal agent at its office in the borough of Manhattan, city and State of New York, in like gold coin of the United States of America at least two days before the date on which each installment of interest shall become payable the amount of such maturing installment of interest; and at least two days before the date on which any of the secured debentures shall be called for redemption a sum equal to the amount payable on said date for principal, premium, and interest less any amount then in the sinking fund applicable to the payment of the principal of any secured debentures called for redemption pursuant to the provisions of Article IV hereof; and at least two days before the maturity of the secured debentures as therein expressed an amount equal to the principal of the outstanding secured debentures, together with all unpaid interest thereon to the date of maturity, less any unexpended balance of cash then in the sinking fund. No interest need be

allowed by the fiscal agent on any moneys paid to it as aforesaid. Except as otherwise expressly provided herein, all moneys paid by the company to the fiscal agent as in this section provided shall be applied by it to the payment of the interest of or of the principal and/or premium for the payment of which such amount shall have been received and held by the fiscal agent: *Provided, however,* That any moneys paid to the fiscal agent as aforesaid and remaining unclaimed by the holders of any secured debentures or coupons for six years after the date upon which the moneys so paid to the fiscal agent shall have been payable to the holders of such secured debentures and/or coupons shall after the expiration of said period of six years be paid by the fiscal agent to the company without any liability or responsibility of the fiscal agent or of the trustee to the holder of any outstanding secured debenture or coupon: *Provided, however,* That the fiscal agent may, at the expense of the company, cause to be published once a week for four successive calendar weeks in a daily newspaper printed in the English language, published and of general circulation in the borough of Manhattan, city and State of New York, and in a daily newspaper printed in the English language and of general circulation in London, England, and in a daily newspaper printed in the Swedish language published and of general circulation in the city of Stockholm, Sweden, notices, which need not be contemporaneous, that said moneys remain unclaimed as aforesaid, and that after a date named in said notice (not more than 60 days after the first publication thereof), unless claimed by those entitled thereto said moneys will be repaid by the fiscal agent to the company.

SEC. 3. In order to prevent any accumulation of coupons after maturity, the company will not directly or indirectly extend or assent to the extension of the time for the payment of any coupon upon any secured debenture and the company will not directly or indirectly be a party to or approve any such arrangement by purchasing or funding such coupons or in any other manner whatsoever.

SEC. 4. Notices, presentations, and demands in respect of the secured debentures and coupons and/or under this agreement may be served or made at any office of the fiscal agent in the Borough of Manhattan, city and State of New York, or in the city of Boston, Commonwealth of Massachusetts, or in the city of Chicago, State of Illinois, or at the office of Higginson & Co. in London, England; each of said offices of the fiscal agent and said office of Higginson & Co. being hereby designated as an agency of the company where secured debentures and/or coupons appertaining thereto may be presented for payment and where notices, demands, and presentations in respect of secured debentures and coupons and/or under this agreement may be served. Notices, presentations, and demands in respect of the secured debentures and coupons and/or under this agreement may also be served or made at the office of any paying agent, appointed by the company with the written consent and approval of the fiscal agent, in the city of Stockholm, Sweden, or in the city of Amsterdam, Holland, or in the city of Basle, Switzerland, but only so long as such appointment shall remain in full force and effect; each said office of a paying agent so appointed being hereby designated as an agency of the company where secured debentures and/or coupons appertaining thereto may be presented for payment and where notices, presentations, and demands in respect of secured debentures and coupons and/or under this agreement may be served. Except as herein otherwise expressly provided the fiscal agent and the paying agents so appointed shall not be under any liability to the company or to any holder of secured debentures or coupons or to anyone else in respect of any such notice, presentation, or demand other than to promptly notify the company and the trustee of the receipt of such notice, presentation, or demand.

ARTICLE VIII

PARTICULAR COVENANTS OF THE COMPANY

The company covenants with the trustee, the fiscal agent, and the respective holders from time to time of the secured debentures as follows:

SECTION 1. The company is duly and properly incorporated as a limited liability company under the laws of the Kingdom of Sweden, has its principal office at Stockholm, Sweden, and is registered under the Swedish companies' act. The company has due and proper power and authority to enter into this agreement and to issue the secured debentures as herein set forth. The execution and delivery of this agreement and the execution, delivery, and issuance of the secured debentures have in all respects been duly and properly authorized by the board of directors and by the company and all due and proper corporate action and all

action according to law has been duly taken with respect thereto, and all things necessary to make the secured debentures, when executed, authenticated and delivered as provided in this agreement, the legal, valid, and binding obligations of the company and to constitute this agreement a legal, valid, and binding agreement enforcible in accordance with its terms have been duly, properly and legally done and performed and have happened, and the secured debentures when executed, authenticated, and delivered as herein provided will be the legal, valid, and binding obligations of the company and will not be subject to any valid defense of any kind, character, or description whatsoever

SEC. 2. The company will itself and will cause each wholly owned or controlled subsidiary company or corporation of the company diligently to—

(a) Preserve its corporate existence except as otherwise permitted herein and the continued existence of all of the other franchises and rights to it granted or upon it conferred in so far as in the opinion of the company the preservation of such subsidiary company or corporation and of such franchises or rights continues to be advantageous to the company;

(b) Pay and discharge promptly all taxes, assessments, and governmental charges lawfully levied or imposed upon it, its property or any part thereof, or upon its income or profits or any part thereof, or upon the interest of the trustee hereunder or moneys or property in the possession of the depositary, the trustee, or the fiscal agent, pursuant to the provisions hereof, but it shall have the right in good faith to contest any such tax, assessment, charge, or claim and pending such contest to delay or refuse payment thereof.

SEC. 3. The company will at any and all times promptly upon request of the trustee, the depositary, or the fiscal agent hereunder furnish a verified statement setting forth any facts known to it or which it can with due diligence ascertain regarding the deposited property and will likewise promptly notify the trustee of any fact of which it may have knowledge at any time indicating a default or possible default in respect thereof, the maturing of any portion thereof, or any deficiency in the maintenance of the required ratio of principal and/or the required ratio of income as set forth in Article III hereof.

SEC. 4. The company will, from time to time, upon the request of the trustee, make, do, execute, acknowledge, deliver, and record or file in all places, if any, wherever required for the proper protection of the holders of the secured debentures and of the trustee, all such further and additional acts, deeds, assurances, and instruments and will take all such further action as may reasonably be required by the trustee for assuring and confirming to the trustee all and singular the property included or intended to be included in the deposited property and to carry out the intention of this agreement or for assuring to the trustee or to the holders of secured debentures the lien, rights, benefits, and security of this agreement and the covenants of the company herein contained and the payment of the secured debentures.

ARTICLE IX

CONCERNING THE DEPOSITARY

SECTION 1. Skandinaviska Kreditaktiebolaget of Stockholm, Sweden, a banking corporation duly organized under the laws of the Kingdom of Sweden, is hereby appointed depositary under this agreement. The word "depositary" as used in this agreement shall mean the depositary, whether original or successor, at any time or from time to time acting hereunder.

SEC. 2. By written notice served upon the depositary, the trustee may at any time remove the depositary. Such removal shall take effect upon the date specified in such notice of removal, which shall be at least 20 days after the date of such service. By written notice served upon the trustee, the depositary may resign and be discharged from its undertakings and duties hereunder. Such resignation of the depositary shall take effect on the day specified in such notice of resignation which shall not be less than three months from the date of such service.

In case at any time the depositary shall be removed, or shall resign, or shall, for any reason, become incapable of acting, the trustee, with the consent of the company, shall appoint a successor depositary. Every such appointment shall be in writing and executed in duplicate; one original thereof shall be filed with the depositary ceasing to act, together with the written acceptance of such appointment by the successor depositary and one original thereof with the successor depositary, and the filing of such appointment and acceptance without further act shall complete the appointment of the successor depositary as such. Immediately upon the filing of such appointment and acceptance with the deposi-

tary, the successor depositary named therein, without any further act, deed, conveyance, or transfer, shall succeed to the rights, powers, duties, and obligations of its predecessor as depositary, with like effect as if originally named as depositary herein, and the retiring depositary shall deliver to the successor depositary, or its agent, the deposited property then held by it hereunder. Upon the delivery of such property to the successor depositary, all liability on the part of the retiring depositary under this agreement or to the holders of the secured debentures issued hereunder, with respect to the deposited property so delivered, shall immediately cease and terminate.

Any successor depositary appointed by the trustee pursuant to the provisions of this article shall be a banking corporation having a capital and surplus of at least $5,000,000 or the equivalent thereof computed at par of exchange and shall have its principal office either in the Borough of Manhattan, city and State of New York, or in one of the principal cities of Europe.

SEC. 3. The deposited property held by the trustee and/or the depositary or any successor depositary appointed by the trustee under the preceding section of this article shall be held in trust and as security for the equal and proportionate benefit of all present and future holders of the secured debentures and coupons issued and to be issued under this agreement, without preference or priority by reason of the date of the issue, sale or negotiation thereof, or otherwise, and for the purpose of securing the observance and performance of all the terms and conditions and covenants of this agreement. Such part or all of said deposited property held by the depositary shall be deemed to be held by the trustee for the purposes of this agreement. The trustee shall not be responsible or liable for the care, custody or safekeeping of such part or all the deposited property in the possession of the depositary, and the depositary itself shall be liable and responsible only for its own willfull default or gross negligence in respect of the care, custody and safekeeping of such part of the deposited property as may be held by it under the terms of this agreement. The depositary shall not be answerable or accountable for any act, default, neglect or misconduct of any attorneys, agents or employees if reasonable care has been exercised in the appointment and retention thereof.

SEC. 4. The eligible securities deposited hereunder shall be delivered to the trustee or the depositary accompanied by any necessary documentary stamps, and if not already in bearer form shall be duly indorsed in blank for transfer or shall be accompanied by appropriate instruments of assignment and transfer duly executed in blank. The elegible securities so deposited may be in temporary or definitive form and if interest bearing shall be accompanied by all unmatured coupons, if any, appertaining thereto.

SEC. 5. Unless and until an event of default, as defined in Article X hereof, shall happen and shall be continuing, and except as elsewhere in this agreement otherwise expressly provided:

(*a*) All shares of stock forming part of the deposited property shall at all times be represented by certificates in bearer form with coupons if any attached or issued in the name of the company or in such other name or names as the company from time to time in writing shall designate, and transfers from one name to the other shall be made from time to time upon the written request of the company, but all such certificates (unless in bearer form) shall be indorsed in blank for transfer or shall be accompanied by appropriate instruments of transfer or assignment executed in blank.

(*b*) The company shall be entitled from time to time to collect and receive for its own use all dividends which may be declared on all shares of stock forming part of the deposited property and all sums which may become due and payable as interest upon any interest bearing securities forming part of the deposited property and the trustee and the depositary shall from time to time upon the written request of the company deliver to it when the same are declared or become due and payable suitable assignments or orders for the payment of and/or coupons for all such dividends and interest. All sums which may be received or collected by the trustee or the depositary, respectively, representing dividends and/or interest upon the deposited property shall upon the written request of the company be paid over to it or upon its order.

(*c*) The company shall be entitled to any and all subscription warrants or other rights pertaining to the deposited property and shall also be entitled to exercise any rights of exchangeability or conversion that may accrue in respect of any part of such deposited property, and the trustee or the depositary, as the case may be, from time to time upon the written request of the company shall deliver to the company suitable assignments or other instruments for the transfer and release of any such warrants or other rights and shall take such steps as may

be necessary to effect any such exchange or conversion; provided however, the required ratio of principal and/or the required ratio of income, as defined in Article III hereof, shall not be impaired as a result of the exercise or release of any such subscription warrants or other rights or as a result of any such exchange or conversion.

(*d*) The company shall have the right from time to time to vote and/or give consents in respect of all the deposited property for all purposes not contrary to the provisions of this agreement, and the company may waive notice of any and all meetings or may consent to and ratify any action taken at any and all meetings of the holders of any of the securities forming part of the deposited property with the same force and effect as though the deposited property were not subject to the terms of this agreement, and if any part or parts of the deposited property are securities registered in the name of the trustee or the depositary or one of their nominees, the trustee or the depositary, as the case may be, shall, upon the written request of the company, execute and deliver to the company or its nominees suitable powers of attorney or proxies so that the company may exercise the right to vote or give consents in respect of such securities.

Provided, however, That the company shall not be entitled to collect and receive and the trustee and the depositary shall not pay over to the company under the foregoing provisions any cash dividends that may become payable or be paid in the course of the dissolution, liquidation, or winding up of any company or corporation whose securities form a part of the deposited property, nor any dividends payable in the shares of stock of the company declaring or authorizing the same and declared or authorized in respect of any shares of stock forming a part of the deposited property, nor any interest which shall have been collected or paid out of the proceeds of the sale or other disposition of the property mortgaged or pledged or otherwise held as security for the eligible securities then on deposit hereunder, unless the required ratio of principal and/or the required ratio of income, as defined in Article III hereof, shall be unimpaired as a result of the payment to the company of any such dividends and/or interest.

SEC. 6. Neither the trustee nor the depositary shall be obliged to examine or pass upon the validity or genuineness of any security tendered for deposit hereunder, and they and each of them shall be entitled to assume without inquiry that any security so tendered is genuine and valid and what it purports to be, and that any indorsement thereon or assignment thereof is effective, genuine, and valid. The trustee may accept and rely on the certificate of the depositary to the effect that it has received from the company and holds in its possession any specified amount of eligible securities as defined in Article III hereof, and shall be fully protected in relying on any such certificate.

ARTICLE X

REMEDIES OF TRUSTEE AND OF HOLDERS OF SECURED DEBENTURES

SECTION 1. No coupon appertaining to any secured debenture which in any way at or after maturity shall have been transferred or pledged separate and apart from the secured debenture to which it relates shall, unless accompanied by such secured debenture, be entitled in case of default hereunder to any right or benefit of or from this agreement except after the prior payment in full of the principal of all the outstanding secured debentures and of the premium on all secured debentures which may have been called for redemption and of all coupons not so transferred or pledged.

SEC. 2. The following events shall be events of default under this agreement and the term "event of default" or "events of default" shall mean, wherever the same is used in this agreement, one or more of the following events continued for the periods, if any, hereinafter respectively specified:

(*a*) Default shall be made in the payment of any installment of interest on any of the secured debentures when and as such installment of interest shall become due and payable as therein and herein expressed and such default shall continue for 60 days.

(*b*) Default shall be made in the payment of any of the amounts payable by the company as provided by Article IV of this agreement as a sinking fund for the retirement of the secured debentures when and as any such amount shall become due and payable as provided in said Article IV and such default shall continue for 60 days.

(*c*) Default shall be made in the payment of the principal and/or premium of any of the secured debentures when and as the same shall become due and payable, either by the terms thereof or by call for redemption as provided in Article

V hereof or by declaration as provided in this article or otherwise as in this agreement provided.

(*d*) Default shall be made in the observance or performance of any other of the covenants, conditions, and agreements on the part of the company in the secured debentures or in this agreement contained and such default shall continue for 60 days after written notice specifying such default and requiring the same to be remedied shall have been given by the trustee, which may give such notice in its discretion and which shall give such notice on the written request of the holders of 25 per cent in principal amount of the secured debentures at the time outstanding.

(*e*) The company shall be adjudicated bankrupt or become insolvent, or a receiver shall be appointed of the property of the company and shall not be discharged within 60 days after appointment.

(*f*) The company shall file a voluntary petition in bankruptcy or make a general assignment for the benefit of creditors or shall take any action for or any order or direction or vote shall be made or had for its dissolution, liquidation, or winding up.

In case any such event of default shall occur, then and in every such case the trustee without notice to the company may in its discretion or upon request in writing signed by the holders of 25 per cent in principal amount of the secured debentures then outstanding shall declare the principal of all the secured debentures, if not already due, to be forthwith due and payable, and upon any such declaration the secured debentures shall become due and payable immediately. This provision, however, is subject to the condition that if at any time after the principal of the secured debentures shall have been so declared due and payable and before any sale of the deposited property shall have been made all arrears of interest upon all the secured debentures with interest on overdue installments of interest at the rate of 6 per cent per annum together with the reasonable charges, expenses, liabilities, and advances under this agreement of the trustee, its agents and attorneys, and all other sums which may have become due and payable by the company hereunder, other than the principal of any of the secured debentures which shall not have matured by their terms, shall either be paid by the company or collected out of the income, issues, and profits of the deposited property and all other defaults under the secured debentures or any of them or under this agreement shall have been made good to the satisfaction of the trustee, then and in that case the holders of a majority in principal amount of the secured debentures then outstanding by written notice to the company and to the trustee may waive the default and its consequences; but no waiver shall extend to or affect any subsequent default or impair any right consequent thereon.

SEC. 3. If one or more of the events of default shall happen, the trustee personally, or by its agents or attorneys and when necessary or desirable acting through or with the aid of the proper Swedish authorities, and in its discretion—

(*a*) May sell, subject to the then prior liens, if any, existing thereon, to the highest bidder, the deposited property and all right, title and interest, claim and demand therein, and right of redemption thereof, which sale or sales shall be made at public auction at such place, which may be within or without the State of New York, or within or without the Kingdom of Sweden, and at such time and upon such terms as the trustee may fix and briefly specify in the notice of sale to be given as herein provided or as may be required by the applicable law;

(*b*) May proceed to protect and to enforce its rights and the rights of the holders of secured debentures under this agreement by a suit or suits in equity or at law whether for the specific performance of any covenant or agreement contained herein or in aid of any power herein granted or for the enforcement of any other appropriate legal or equitable remedy (including any and all proceedings of whatever nature permitted by Swedish law or custom) as the trustee being advised by counsel learned in the law shall deem most effectual to holders of secured debentures hereunder.

Prior to the institution of proceedings either under the foregoing subdivision (*a*) or under the foregoing subdivision (*b*) the trustee shall have the right to call upon the depositary for the immediate delivery to the trustee of all the deposited property then held by the depositary hereunder and the depositary shall forthwith comply with such request of the trustee.

SEC. 4. Upon written request of the holders of 25 per cent in principal amount of the secured debentures then outstanding, in case one or more of the events of default shall happen, it shall be the duty of the trustee, upon being furnished with indemnity satisfactory to it and upon production and deposit of such secured debentures, to take all steps needful for the protection and enforcement of its rights and the rights of the holders of secured debentures or to exercise the power

of sale herein conferred or to take appropriate judicial proceedings in accordance with the laws of Sweden or of the United States of America or other applicable law, by action, suit, or otherwise as the trustee being advised by counsel shall deem most expedient in the interest of the holders of the secured debentures; provided, however, that nothing herein contained shall preclude the trustee whenever it shall deem it desirable from taking all steps needful for the protection and enforcement of its rights and the rights of the holders of the secured debentures without said written request and without being indemnified as aforesaid.

SEC. 5. In the event of any sale whether made under the power of sale herein granted or pursuant to judicial proceedings, the deposited property may be sold either in one parcel as an entirety or in several parcels, and if in several parcels in such parcels as the trustee may determine and as it shall deem most advantageous for the holders of the secured debentures.

SEC. 6. Notice of any sale pursuant to any provision of this agreement shall state the time and place when and where the same is to be held and shall contain a brief general description of the property to be sold and shall be sufficiently given if published once in each week for four successive calendar weeks prior to the sale in a newspaper of general circulation published in the English language in the Borough of Manhattan, city and State of New York, and in a newspaper of general circulation published in the English language in London, England, and in a newspaper of general circulation published in the Swedish language in the city of Stockholm, Sweden, but such publications need not be simultaneous.

SEC. 7. The trustee may adjourn from time to time any sale made by it under the provisions of this agreement by announcement at the time and place appointed for the sale or adjourned sale or sales, and without further notice or publication it may make the sale at the time and place to which the sale shall be so adjourned.

SEC. 8. Upon the completion of any sale or sales under this agreement, the trustee shall deliver to the purchaser the securities, bonds, stock notes, obligations, and other property sold with good and sufficient transfers. The trustee and its successors are hereby appointed the true and lawful attorneys irrevocable of the company in its name and stead to make all necessary conveyances, assignments, and transfers of the property thus sold; and for that purpose it may execute all necessary instruments of transfer and may substitute one or more persons with like power, the company hereby ratifying and confirming all that its said attorney or said substitute or substitutes shall lawfully do by virtue hereof.

Any such sale or sales made under this agreement, whether under the power of sale herein granted or pursuant to judicial proceedings, shall operate to divest all right, title, interest, claim, and demand whatsoever either at law or in equity of the company of, in, and to the property so sold and shall be a perpetual bar both at law or in equity against the company, its successors and assigns and against any and all persons claiming or purporting to claim the property sold or any part thereof from, through, or under the company, its successors or assigns.

SEC. 9. The receipt of the trustee for the purchase money paid at any such sale shall be a sufficient discharge therefor to any purchaser of the property or any part thereof sold as aforesaid; and no purchaser or his representatives or assigns after paying said purchase money and receiving said receipt shall be bound to see to the application of said purchase money upon or for any trust or purpose of this agreement or in any manner whatsoever be answerable for any loss, misapplication, or nonapplication of any such purchase money or any part thereof, or be bound to inquire as to the authorization, necessity, expediency, or regularity of any such sale.

SEC. 10. In case of a sale, whether made under the power of sale herein granted or pursuant to judicial proceedings, the principal of the secured debentures if not previously due shall immediately thereupon become due and payable, anything in the secured debentures or in this agreement to the contrary notwithstanding.

SEC. 11. The purchase money, proceeds, or avails of any such sale, whether under the power of sale herein granted or pursuant to judicial proceedings, together with any other sums that then may be held by the trustee under any of the provisions of this agreement as part of the deposited property or the proceeds thereof, or otherwise, except any funds held in trust for the payment or redemption of any secured debentures or for the payment of any coupons which shall have been called for redemption pursuant to Articles IV or V hereof or which shall then have matured shall be applied as follows:

First. To the payment of the costs and expenses of sale, including a reasonable compensation to the trustee, the fiscal agent and the depositary, their agents, attorneys, and counsel, and to all expenses, liabilities, and advances made or incurred by the trustee, fiscal agent or depositary hereunder, and to the payment

of all taxes, assessments, or liens superior to the lien of this agreement except the superior liens and any taxes, assessments, or other charges subject to which the property shall have been sold.

Second. To the payment of the whole amount then owing and unpaid upon the secured debentures for principal, premium, if any, and interest, with interest at the rate of 6 per cent per annum on the overdue principal, premium, if any, and installments of interest. In case said moneys shall be insufficient to pay in full the whole amount so due and unpaid upon the secured debentures, then to the payment of said principal, premium, and interest, without preference or priority of principal or premium over interest or of interest or premium over principal or of principal or interest over premium or of any installment of interest over any other installment of interest, ratably to the aggregate of such principal, premium, and interest, subject, however, to the provisions of section 1 of this Article X.

Third. The surplus, if any, to the company, its successors or assigns or to whomsoever may be lawfully entitled to receive the same or as a court of competent jurisdiction may direct.

SEC. 12. The company covenants that in case either or both of the events of default specified in subdivisions (*a*) and (*b*) of section 2 of this Article X shall happen, the company will pay to the trustee for the benefit of the holders of the secured debentures and coupons then outstanding, the whole amount that shall then have become due and payable on all secured debentures and coupons for principal, premium and/or interest, as the case may be, with interest at the rate of 6 per cent per annum upon the overdue principal, premium and installments of interest; and in case the company shall fail to pay the same forthwith the trustee in its own name and as trustee of an express trust shall be entitled to recover judgment against the company for the whole amount so due and unpaid with interest as aforesaid, and, in case of the pendency of any receivership, insolvency, or bankruptcy proceedings affecting the company or its property, to file and prove a claim for the whole amount so due and unpaid, with interest as aforesaid.

The trustee shall be entitled to recover judgment and/or to file and prove such claim as aforesaid either before or after or during the pendency of any proceedings for the enforcement of this agreement; and the right of the trustee to recover said judgment and/or to file and prove such claim shall not be affected by any sale hereunder or by the exercise of any other right, power, or remedy for the enforcement of the provisions of this agreement; and in case of a sale of the deposited property and of the application of the proceeds of sale to the payment of the debt hereby secured, the trustee in its own name and as trustee of an express trust shall be entitled to enforce payment of and receive all amounts then remaining due and unpaid by the company under this agreement for the benefit of the holders of the secured debentures and shall be entitled to recover judgment for the entire amount so due and unpaid, with interest as aforesaid. No recovery of any such judgment by the trustee, and no levy of any execution upon any such judgment upon the deposited property or upon any other property, and no filing and proving of any claim shall in any manner or to any extent affect or impair the lien of this agreement upon the deposited property or any part thereof, or any rights, powers, or remedies of the trustee hereunder or any lien, rights, powers, or remedies of the holders of the secured debentures, but said lien, rights, powers, or remedies of the trustee and of said holders shall continue unimpaired as before. In case of any receivership, insolvency or bankruptcy proceedings affecting the company or its property the trustee shall be entitled to file and prove a claim for the entire amount due and payable by the company under this agreement at the date of the institution of such proceedings and for any additional amount which may become due and payable by the company hereunder after such date, without regard to or deduction for any amount which may have been or which may thereafter be received, collected, or realized by the trustee or the holders of secured debentures from or out of the deposited property or any part thereof or from or out of the proceeds thereof or any part thereof.

Any moneys collected by the trustee under this section 12 shall be applied by the trustee in the same manner and in the same order of precedence as is hereinbefore provided in section 11 of this article in respect of the purchase moneys, proceeds or avails of any sale of the deposited property made by the trustee.

SEC. 13. All rights of action under this agreement or under any of the secured debentures or coupons may be enforced by the trustee without the possession of any of the secured debentures or coupons or the production thereof on any trial or other proceeding relative thereto.

SEC. 14. The company, so far as it lawfully may, hereby agrees to and does hereby absolutely and irrevocably waive and relinquish the benefit and advantage of any and all valuation, stay, appriasement, extension or redemption law or laws now existing, or which may hereafter be enacted, which, but for this agreement and waiver, might be applicable to any sale under any judgment, order or decree based on any of the secured debentures or interest coupons or this agreement; and the company, so far as it lawfully may, hereby agrees to and does hereby absolutely and irrevocably waive any and all rights of redemption which it might or could otherwise have or be entitled to under any present or future law in respect of any sale or sales of the properties, interests and rights of the company, or any part thereof, under any judgment or any direction contained in any decree entered upon any of the secured debentures or coupons issued hereunder, or for the enforcement hereof or of any provision hereof; and the company, so far as it lawfully may, hereby agrees that it, its successors and assigns, will not in any manner set up or seek to take any benefit or advantage of any such present or future valuation, stay, appraisement, extension or redemption law, to prevent or hinder or delay such absolute and irredeemable sale of said properties, interests and rights, as might, but for such law, be directed or decreed by a court of competent jurisdiction.

SEC. 15. In case of a sale whether made under the power of sale herein granted or in accordance with any direction contained in or based on any judgment for the recovery by the trustee or by the holders of secured debentures for the ratable benefit of all such holders similarly situated of any indebtedness evidenced by the secured debentures or coupons or recovered hereunder, any purchaser shall be entitled, in making any payment of the purchase price of the property purchased, to present to the person or persons authorized to receive the payment of such purchase price and to turn in and use any of the secured debentures and coupons issued hereunder and then payable, said secured debentures or coupons or both being computed for that purpose at a sum equal to and not exceeding that which shall be payable out of the net proceeds of such sale to such purchaser as the holder thereof for his just share and proportion of said net proceeds; and, if the proportion so payable in respect of such secured debentures and coupons shall be less than the amount for which the company may be liable thereon, then the receipt indorsed thereon under direction of any person so authorized to receive payment of the purchase price for the amount to be so allowed or credited thereon shall constitute partial payment and shall be conclusive proof of the amount thereof. At any such sale the trustee, as such, or any holder of secured debentures may bid for and purchase the property sold and may make payment therefor as aforesaid, and any such holder so purchasing any such property, upon compliance with the terms of sale, may hold, retain, and dispose of such property without further accountability.

SEC. 16. In case any of the remedies herein given or attempted to be given the trustee, or the holders of the debentures and coupons secured hereby, shall at any time be held invalid, or any provision of this agreement or of the debentures or coupons secured hereby, shall be held illegal or invalid for any reason, such illegality or invalidity shall not affect the remaining provisions of this agreement, or of such debentures or coupons, or the other remedies given hereby, but this agreement and said debentures and coupons shall be construed and enforced as if all such illegal or invalid provisions had never been inserted therein.

SEC. 17. No holder of any debenture or coupon shall have any right to institute any suit, action, or proceeding in equity or at law for the enforcement of this agreement or for the execution of any trust hereunder, or for any other remedy hereunder, unless (*a*) such holder previously shall have delivered to the trustee written notice that some event of default specified in such notice has happened, and (*b*) the holders of 25 per cent in principal amount of the secured debentures then outstanding shall have requested the trustee to take such action and shall have afforded to it a reasonable opportunity either to proceed to exercise the powers hereinbefore granted or to institute such action, suit, or proceeding in its own name, and (*c*) they shall have tendered to the trustee reasonable security and indemnity satisfactory to the trustee against the costs, expenses, and liabilities to be incurred therein or thereby; and such notification, request, and offer of indemnity are hereby declared in every such case, at the option of the trustee, to be conditions precedent to the execution of the powers and trusts of this agreement and to any action or cause of action for the enforcement hereof or for any other remedy hereunder; it being understood and intended that no one or more holders of secured debentures or coupons shall have any right in any manner whatever by his or their action to enforce any right hereunder, except in the manner herein provided, and that all proceedings at law or in equity

shall be instituted, had, and maintained in the manner herein provided and for the equal and proportionate benefit of all holders of the outstanding secured debentures and coupons, subject to the provisions of section 1 of this Article X. Nothing contained in this agreement or in the secured debentures or coupons shall, however, affect or impair the obligation of the company, which is unconditional and absolute, to pay the principal and interest of the secured debentures, and the premium on all secured debentures which may be called for redemption, to the respective holders of the secured debentures and the bearers of the coupons appurtenant thereto at the times and places specified in this agreement and in said secured debentures and coupons, or shall affect or impair the right of action, which is also unconditional and absolute, of such holders and bearers to enforce such payment.

SEC. 18. Except as herein expressly provided to the contrary, no remedy herein conferred upon or reserved to the trustee, or to the holders of secured debentures, is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

SEC. 19. In case of any default which shall not have been satisfied no delay or omission of the trustee or of any holder of secured debentures to exercise any right or power accruing upon any such default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by this Article X to the trustees and to the holders of secured debentures respectively may be exercised from time to time and as often as may be deemed expedient by the trustee or by such holders respectively.

SEC. 20. In case the trustee shall have proceeded to enforce any right under this agreement, and such proceedings shall have been discontinued or abandoned because of waiver or for any other reason or shall have been determined adversely to the trustee, then and in every such case the company and the trustee shall severally and respectively be restored to their former position and rights hereunder, and all rights, remedies, and powers of the trustee shall continue as though no such proceedings had been taken.

ARTICLE XI

IMMUNITY OF STOCKHOLDERS, OFFICERS AND DIRECTORS

No recourse shall be had for the payment of the principal or of the premium, if any, or of the interest on any secured debentures issued under this agreement or the enforcement of any obligation or covenant contained in this agreement or for any claim based on such secured debentures or on said agreement against any incorporator or against any past, present, or future shareholder, participating debenture holder, officer, or director of the company or of any successor corporation, directly or indirectly, whether by virtue of any constitution, statute, or rule of law or by enforcement of any assessment, penalty, or otherwise, it being expressly understood and agreed that this agreement and the obligations issued hereunder and under the secured debentures are solely corporate obligations and that no personal liability whatsoever shall attach to or be incurred by the incorporators, shareholders, participating debenture holders, officers, or directors as such of the company or of any successor corporation or any of them by reason of the issue hereunder of secured debentures or by reason of any of the obligations, covenants, or agreements herein contained and that any and all personal liability of every name and nature and any and all rights and claims against either said incorporator, shareholder, participating debenture holder, officer, or director, as such, are hereby expressly waived and released as a condition of and as a part of the consideration for the execution of this agreement and the issue of secured debentures hereunder.

ARTICLE XII

EVIDENCE OF RIGHTS OF HOLDERS OF SECURED DEBENTURES

Any request or consent or other instrument required by this agreement to be executed by the holders of the secured debentures may be in any number of concurrent writings of similar tenor and may be signed or executed by the secured debenture holders in person or by agents appointed in writing. Proof of the execution of any such request or other instrument, or of the writing appointing any such agent, and of the ownership of secured debentures, or of coupons apper-

taining to secured debentures, if made in the following manner, shall be sufficient for any purpose of this agreement and shall be conclusive in favor of the trustee and of the company with regard to any action taken by the trustee, or by the company, upon said request or other instrument and/or in reliance upon the ownership of secured debentures as so proved:

(*a*) The fact and date of the signing or execution by any person of any such writing may be proved by the certificate of any officer in any jurisdiction who by the laws thereof has power to take acknowledgments of deeds to be recorded within said jurisdiction, that the person signing said writing acknowledged before him the execution thereof, or by an affidavit of a witness of said execution.

(*b*) The fact of the holding by any secured debenture holder of secured debentures and of coupons appertaining to secured debentures, the amount and serial numbers of any such secured debentures and the date of his holding the same may be proved by a certificate executed by any trust company, bank, bankers, or other depositary (wherever situated), if said certificate shall be deemed by the trustee or by the company, as the case may be, to be satisfactory, showing that at the date therein mentioned said person had on deposit with or had exhibited to said trust company, bank, bankers, or other depositary, the secured debentures and/or coupons described in said certificate; and said holding may (but need not) be deemed by the trustee or by the company, as the case may be, to continue until written notice to the contrary is served upon the trustee or the company, as the case may be.

Nothing, however, in this Article XII contained shall preclude the acceptance by the trustee or by the company in the discretion of either, as the case may be, of any such request or consent without proof of the aforesaid character of the execution thereof or of the power of any person signing the same as agent or of the ownership of the secured debentures transferable by delivery, or of coupons appertaining to debentures, if the trustee or the company, as the case may be, shall otherwise be satisfied of said facts.

ARTICLE XIII

CONCERNING THE TRUSTEE

SECTION 1. The trustee accepts the trust hereby created but only upon the following terms and conditions, to all of which the holders of the secured debentures at any time outstanding, by their acceptance thereof, agree:

(*a*) The recitals herein and in the secured debentures contained shall be taken as the statements of the company and the trustee assumes no responsibility for the correctness of the same. The trustee makes no representation as to the value or condition of the deposited property or any part thereof or as to the title of the company thereto, or as to the security afforded thereby and hereby, or as to the validity of this agreement or of the secured debentures and coupons issued hereunder, and the trustee shall incur no responsibility in respect of such matters.

(*b*) The trustee shall be under no duty to record, register, or file or cause to be recorded, registered, or filed this agreement or any agreement supplemental thereto, or to rerecord, reregister, refile or renew the same, and the holders of all the secured debentures at any time outstanding hereunder release the trustee of and from its failure so to record, register, or file or rerecord, reregister, or refile this agreement or any such supplemental agreement, and the holders of secured debentures shall rely solely upon the company and not upon the trustee for said recording, registering, or filing or rerecording, reregistering, or refiling or renewing. The trustee shall be under no duty to procure any further, other or additional instruments of further assurance, or do any other act which may be suitable to be done for the better maintenance or continuance of the lien or security hereof or for giving notice of the existence of said lien or for extending or supplementing the same, or to see that any property intended now or hereafter to be deposited hereunder is subject to the lien hereof. The trustee shall not be under any duty to procure or be liable for failure of the company to pay any tax in respect of the deposited property or any part thereof or otherwise, nor shall the trustee be under any duty in respect of any tax which may be assessed against it or the owners of the secured debentures outstanding thereunder in respect of the deposited property. The trustee shall be under no responsibility or duty with respect to the disposition of the secured debentures authenticated and delivered hereunder or the application of the proceeds thereof or of any moneys paid to the company under any of the provisions hereof.

(*c*) The trustee may execute any of the powers hereof and perform any duty hereunder either itself or by or through its attorneys, agents or employees, and it

shall not be answerable or accountable for any act, default, neglect, or misconduct of any such attorneys, agents, or employees if reasonable care has been exercised in the appointment and retention thereof, nor shall the trustee be otherwise answerable or accountable under any circumstances whatsoever, except for its own bad faith or gross negligence. The trustee shall be under no obligation or duty to perform any act hereunder or to institute, appear in or defend any suit in respect hereof unless first indemnified to its satisfaction. The trustee shall not be required to ascertain or inquire as to the performance of any of the covenants and agreements herein contained on the part of the company. The trustee shall not be required to take notice or be deemed to have knowledge of any default of the company hereunder and may conclusively assume that there has been no default unless and until specifically notified in writing of said default by the company or by the holders of not less than 25 per cent in principal amount of the secured debentures then outstanding. The trustee shall not be under any obligation to take any action in respect of any default or otherwise or toward the enforcement of any rights hereby created or to institute, appear in or defend any suit or other proceeding in connection therewith, unless requested so to do by writing delivered to the trustee by the holders of 25 per cent in principal amount of the secured debentures then outstanding and furnished with security and indemnity satisfactory to it against the costs and expenses of said proceeding; but this provision shall not affect any discretionary power herein given to the trustee.

(*d*) Except as herein otherwise provided, any notice or demand which by any provision of this agreement is required or permitted to be given or served by the trustee on the company, shall be deemed to have been sufficiently given and served for all purposes by having been mailed by registered post, postage prepaid, addressed (until another address is filed by the company with the trustee) as follows: Aktiebolaget Kreuger & Toll, 17 Vastra Tradgardsgatan, Stockholm, Sweden.

(*e*) The trustee shall not be bound to recognize any person as the holder of a secured debenture outstanding hereunder unless and until the secured debenture is submitted to the trustee for inspection, if required, and the title thereto satisfactorily established if disputed.

(*f*) The trustee shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, appraisal, opinion, cable, radio, telegram, bond or other paper or document believed by the trustee to be genuine and to have been signed or presented by the proper party or parties. The trustee may consult with counsel selected by it and the opinion of said counsel shall be full and complete authority and protection in respect of any action taken, suffered, or omitted by the trustee in good faith and in accordance with the opinion of said counsel. The trustee shall not be under any responsibility for the selection, appointment, or approval of any accountant, appraiser, counsel or other nominee for any of the purposes expressed in this agreement.

(*g*) Upon any application for the payment of any moneys held by the trustee under any provision of this agreement, or for the execution of any release or upon any other application to the trustee hereunder, the resolutions, certificates, statements, appraisals, opinions, reports, orders, and other papers required by any of the provisions of this agreement to be delivered to the trustee as a condition of the granting of said application or upon which the trustee may rely in accordance with this agreement may be received by the trustee as conclusive evidence of any statement therein contained and shall be full warrant, authority, and protection to the trustee acting on the faith thereof not only in respect of the statements therein made but also in respect of the opinions therein set forth. Before granting any application the trustee shall not be under any duty to make any further investigation into the matters appearing by or set forth in any said resolution, certificate, statement, appraisal, opinion, report, order, or other paper, but if requested so to do by writing delivered to the trustee, prior to action had thereon, by the holders of not less than 25 per cent in principal amount of the secured debentures then outstanding, and only if furnished with security and indemnity satisfactory to it against the costs and expenses of the investigation, the trustee shall make such further investigation as to it may seem proper; but it may in its discretion make any such independent inquiry or investigation as it may see fit. If the trustee shall determine or shall be requested as aforesaid to make said further inquiry it shall be entitled to examine the books, records, and premises of the company itself or by agent or attorney; and unless the trustee shall be satisfied with or without said examination of the truth and accuracy of the matters stated in said resolution, certificate, statement, appraisal, opinion, report, order, or other paper, the trustee shall not be under any obligation to grant the application. If

after said examination or other inquiry the trustee shall determine to grant the application, it shall not be liable for any action taken in good faith. The reasonable expense of every examination shall be paid by the company, or if paid by the trustee shall be repaid by the company, upon demand, with interest at the rate of 6 per cent per annum, and until said repayment, shall be secured by a lien on the deposited property and the proceeds thereof prior to the lien of the then outstanding secured debentures issued hereunder.

(*h*) The company covenants and agrees to pay to the trustee from time to time on its demand a reasonable compensation for all services rendered by the trustee hereunder and also all its reasonable expenses and counsel fees and other disbursements and those of its attorneys, agents, and employees incurred in the performance of the powers and duties hereunder, and agrees to indemnify and save the trustee harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder. In default of payment by the company and as security for said indemnity, the trustee shall have a lien therefor on the deposited property and the proceeds thereof prior to the lien of the secured debentures issued hereunder.

(*i*) The trustee shall not be liable for interest on any moneys paid to or deposited with it or to its credit pursuant to any of the provisions of this agreement during the period such moneys shall remain on deposit with it except such interest as it may agree on with the company, or in the absence of agreement, such as is allowed on demand commercial deposits in accordance with the regulations of the New York Clearing House.

(*j*) The trustee, in its individual capacity, may purchase, own, and hold secured debentures and coupons and any other securities of the company with the same rights which it would have if it were not trustee.

SEC. 2. Any moneys which at any time shall be deposited by the company with the trustee or with the fiscal agent for the purpose of paying any of the secured debentures which shall have become due or payable either at the maturity thereof or upon call for redemption, or otherwise, or for the purpose of paying any coupons appertaining to any of the secured debentures, shall be and are hereby assigned, transferred, and set over unto the trustee or the fiscal agent in trust for the respective holders of the secured debentures or coupons for the purpose of paying which the said moneys shall have been deposited, and in the event of the appointment of a receiver or receivers of the company or of its property, such receiver or receivers shall have no right, title, or interest in said moneys so deposited, or in any part thereof.

SEC. 3. The trustee or any successor or successors hereafter appointed, or any of them, may at any time resign and be discharged from its or their duties hereunder by giving written notice to the company and thereafter published notice thereof specifying a date when the resignation shall take effect, once a week for three successive calendar weeks in a daily newspaper of general circulation published in the Borough of Manhattan, city and State of New York, and the resignation shall take effect on the day specified in the notice unless previously a successor trustee shall have been appointed by the debenture holders or the company as hereinafter provided, in which event the resignation shall take effect immediately upon the appointment of said successor trustee.

The trustee or any successor trustee hereafter appointed may be removed at any time by an instrument or concurrent instruments in writing filed with the trustee or a successor trustee and signed by the holders of two-thirds in principal amount of the secured debentures then outstanding or their attorneys thereunto duly authorized. Upon its resignation or removal the trustee shall be entitled to the payment of reasonable charges for the services rendered by the trustee under this agreement.

SEC. 4. In case at any time the trustee or any successor hereafter appointed shall resign or shall be removed or shall become incapable of acting or shall be adjudged a bankrupt or insolvent or if a receiver of the trustee or of its property shall be appointed, a successor trustee may be appointed at any time within one year after the happening of any of said events by the holders of a majority in principal amount of the secured debentures then outstanding, by an instrument or concurrent instruments in writing signed and acknowledged by said secured debenture holders or by their attorneys in fact duly authorized and delivered to the new trustee, notification thereof being given to the company and the predecessor trustee; provided, however, that until a new trustee shall be appointed by the secured debenture holders as aforesaid the company by an instrument in writing may appoint a trustee to fill the vacancy until a new trustee shall be appointed by the secured debenture holders as herein authorized. The company shall publish notice of any such appointment by it made once in each week for

two consecutive calendar weeks in a daily newspaper of general circulation in the Borough of Manhattan, city and State of New York. Any new trustee appointed by the company shall immediately and without further act be superseded by a trustee appointed by the secured debenture holders as above provided.

If in a proper case no appointment of a successor trustee shall be made pursuant to the foregoing provisions of this section 4 within one year after the happening of any of the events set forth in the first paragraph of this section 4, the holder of any secured debenture outstanding hereunder or any retiring trustee may apply to any court of competent jurisdiction to appoint a successor trustee. Said court may thereupon, after such notice, if any, as said court may deem proper and prescribe, appoint a successor trustee.

Any trustee appointed under the provisions of this section 4 in succession to the trustee shall be a trust company organized under the laws of the State of New York and doing business in the Borough of Manhattan, city and State of New York (or a national or State banking association doing business in said borough) having a capital, surplus, and undivided profits aggregating at least $10,000,000, and in which the company shall have no stock ownership or financial interest, if there be such a trust company or banking association willing and able to accept the trust on reasonable and customary terms.

Any successor trustee appointed hereunder shall execute, acknowledge and deliver to its predecessor trustee and also to the company an instrument accepting the appointment hereunder, and thereupon said successor trustee without any further act, deed, or conveyance shall become fully vested with all the estates, properties, rights, powers, trusts, duties, and obligations of its predecessors hereunder with like effect as if originally named as trustee herein; by the retiring trustee shall nevertheless on the written request of the company or of the successor trustee execute, acknowledge, and deliver such instruments of conveyance and further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming in said successor trustee all the right, title, and interest of the retiring trustee which it succeeds in and to the deposited property and said rights, powers, trusts, duties, and obligations; and the retiring trustee shall also upon like request pay over, assign, and deliver to the successor trustee any money and other property subject to the lien of this agreement. Should any deed, conveyance, or instrument in writing from the company be required by the new trustee for more fully and certainly vesting in and confirming to the new trustee said property, rights, powers, and duties, any and all said deeds, conveyances, and instruments, in writing shall on request be executed, acknowledged, and delivered by the company.

SEC. 5. Any corporation into which the trustee may be merged, or with which it may be consolidated, or any corporation resulting from any merger or consolidation to which the trustee shall be a party, shall be the successor trustee under this agreement without the execution or filing of any paper or the performance of any further act on the part of any of the parties hereto anything herein to the contrary notwithstanding.

SEC. 6. Whenever, in order to comply with the law of any jurisdiction in which, at the time, the company is doing business or has property, it shall be necessary in the opinion of the trustee or is requested in writing by the holders of a majority in principal amount of the secured debentures then outstanding by an instrument or concurrent instruments in writing signed by such secured debenture holders or by their attorney's in fact duly authorized, the company and the trustee shall join in the execution, delivery and performance of all instruments and agreements necessary to appoint any individual or individuals, corporation, or corporations, approved by the trustee, to act hereunder, either as cotrustee or cotrustees, jointly with the trustee, or as separate trustee or trustees hereunder. The individual or individuals, corporation or corporations, so appointed, upon acceptance hereof in writing, shall thus effectively acquire and possess the rights and powers, and be subject to the duties, specified in such appointment for the term therein designated.

ARTICLE XIV

DEFEASANCE CLAUSE

SECTION 1. If, when the principal of all the secured debentures shall become payable whether by their terms or by call for redemption or otherwise, the company shall well and truly pay or cause to be paid the whole amount of the principal, premium, if any, and interest due on all the secured debentures and coupons then outstanding, or shall provide for payment thereof by depositing with the trustee the entire amount so due or to become due thereon, and shall

also pay or cause to be paid all other sums payable hereunder by the company (including the reasonable compensation, expenses, and disbursements of the trustee, the fiscal agent and the depositary) and shall well and truly keep and perform all the things herein required to be kept and performed by it according to the true intent and meaning of this agreement, then and in that case, at the election of the company, the deposited property and all rights and interests hereby conveyed or assigned shall revert to the company and the estate, right, title, and interest of the trustee shall thereupon cease, determine, and become void and this agreement shall cease to be of further effect, and the trustee on written demand of the company and at the cost and expense of the company shall enter satisfaction of this agreement upon the record and shall cause to be assigned, transferred, and delivered all deposited property then held by the trustee hereunder to the company.

SEC. 2. All moneys paid over to the trustee for the purpose of paying the principal or interest or redemption price of any of the secured debentures issued hereunder that shall remain unclaimed by the holders of the secured debentures and/or the coupons entitled to receive the same for six years after said moneys shall have been so paid to the trustee, shall be repaid by the trustee to the company upon its written request made to the trustee, and thereupon the trustee shall be released from any and all further liability with respect to the payment of any of the secured debentures or coupons then remaining outstanding; any amount so received by the company may be used by it for any purpose without incurring any liability to the holder of any of said secured debentures or coupons who shall thereafter be entitled to enforce the right, if any, to the payment thereof only against the company: *Provided, however,* That the trustee before being required to make any such payments may at the expense of the company cause notice that said moneys have not been so called for and that after a date named therein they will be returned to the company, to be published once a week for two successive calendar weeks in a newspaper of general circulation in the Borough of Manhattan, city and State of New York.

ARTICLE XV

SUPPLEMENTAL AGREEMENTS

The company and the trustee, from time to time, and at any time, may enter into an agreement or agreements supplemental hereto, each of which shall thereafter form a part hereof for any one or more of the following purposes:

(1) To correct and amplify the description of any property hereby pledged, sold, assigned, or transferred or intended so to be, or to pledge, sell, assign, transfer, or convey to the trustee any other property or properties to be held as part of the deposited property with the same force and effect as if included in the granting clauses hereof;

(2) To add to the covenants and agreements of the company such further covenants and agreements as the company shall consider to be necessary for the protection of the holders of the secured debentures outstanding hereunder or for the protection of the deposited property;

(3) To evidence a succession to the company or successive successions and the compliance by any such successor with the covenents and obligations of the company under the secured debentures and under this agreement and/or to evidence the appointment and the rights, powers, privileges, immunities and authority of any cotrustee or separate trustee, pursuant to the provisions hereof;

(4) To make such provision for the purpose of curing any ambiguity or of curing, correcting or supplementing any defective or inconsistent provision contained in this agreement or in regard to omissions or questions arising under this agreement as may be necessary or desirable and not inconsistent with the security and protection intended to be conferred upon the trustee and the holders of secured debentures;

(5) To provide for the issue of secured debentures of any series other than the first series and the forms and provisions of such other series pursuant to the provisions of this agreement; and

(6) To limit the authorized amount or the issue or purposes of issue of secured debentures thereafter to be issued hereunder by imposing additional conditions and restrictions to be thereafter observed.

(7) To provide for the issue of debentures of the first or other series without warrants attached in the denomination of $100; such debentures however shall not be interchangeable for debentures of a higher denomination with warrants attached but may be exchangeable after the expiration or exercise of said warrants.

(8) To modify, alter, or cancel this agreement and to add or substitute new provisions for any existing provisions thereof, as provided in section 3 of Article XVI of this agreement.

Provided, however, That nothing in this article shall affect or limit the obligation of the company to execute and deliver to the trustee any instrument of further assurance or other instrument which elsewhere in this agreement is requested to be made to or with the trustee.

ARTICLE XVI

MISCELLANEOUS PROVISIONS

SECTION 1. Nothing in this agreement shall prevent the consolidation of the company with any corporation or prevent any merger of any corporation into the company or of the company into any corporation or prevent the sale by the company of its property as an entirety or substantially as an entirety: *Provided, however,* That the consolidation or merger shall be on such terms as to preserve and not to impair the lien or security of this agreement or any of the rights and powers of the trustee or of the holders of the secured debentures and that any successor corporation formed by the consolidation or the corporation into which the company shall be merged shall as a part of the consolidation or merger expressly assume, the due and punctual payment of the principal of, and premium, if any, and interest on, all the secured debentures and the observance and performance of all covenants and conditions of this agreement: *And provided further,* That as a condition of any such sale of its property by the company the corporation to which said property shall be sold shall as a part of the purchase price thereof assume the due and punctual payment of the principal of, and the premium, if any, and interest on, all of the secured debentures and the observance and performance of all covenants and conditions of this agreement and shall simultaneously with the delivery to it of the instruments of conveyance, assignment, and transfer thereof execute and deliver to the trustee a proper agreement in form satisfactory to the trustee whereby the purchasing corporation shall so assume the due and punctual payment of the principal of, and the premium, if any, and interest on all of the secured debentures and the observance and performance of all the covenants and conditions of this agreement.

SEC. 2. In case any corporation shall be consolidated with the company as aforesaid, or in case the company shall be so merged into any other corporation or in case of the sale by the company of its property as an entirety or substantially as an entirety, the corporation formed by the consolidation or into which the company shall have been merged or to which said sale shall have been made, upon executing and causing to be recorded, registered, and/or filed, as required by law, an agreement with the trustee whereby said corporation shall assume the due and punctual payment of the principal of, and premium, if any, and interest on, all of the secured debentures and the observance of all of the covenants and conditions of this agreement, shall succeed to and be substituted for the company with the same effect as if it had been named herein as the party of the first part; and said corporation may thereupon cause to be signed and may issue either in its own name or in the name of the company any or all of the secured debentures which shall not theretofore have been signed by the company and delivered to the trustee, and the trustee upon the order of said corporation in lieu of the company and subject to all the terms, conditions, and restrictions herein prescribed, shall authenticate any and all secured debentures which shall have been previously signed by the officers of the company and delivered to the trustee for authentication and any of the secured debentures which said company shall thereafter cause to be signed and delivered to the trustee for that purpose. All secured debentures so issued shall in all respects have the same legal rank and security as the secured debentures therefor issued in accordance with the terms of this agreement as though all of said secured debentures had been actually issued by the company as of the date of the execution hereof.

SEC. 3. Any of the terms and provisions of this agreement may be modified, altered, or canceled and new provisions may be added or substituted for any existing provisions at any time by and with the consent of the holders of 75 per cent of the aggregate principal amount of the secured debentures then outstanding.

SEC. 4. This agreement shall be executed in English only and so far as permitted by law the English text hereof shall govern in and outside of Sweden in meaning and effect for every purpose. This agreement and the secured debentures issued hereunder wherever executed shall be deemed for all purposes to have been executed in the State of New York in the United States of America and shall be construed in accordance with and performance hereof and thereof shall be

governed by the laws of the State of New York and of the United States of America.

SEC. 5. This agreement may be executed in any number of counterparts, each of which shall be deemed an original, and said counterparts shall constitute but one and the same instrument.

In witness whereof, Aktiebolaget Kreuger & Toll, the party of the first part, has caused this agreement to be executed and acknowledged by one of its directors thereunto duly authorized and its corporate seal to be hereunto affixed and attested, and Lee, Higginson Trust Co., party of the second part, has caused this agreement to be executed and acknowledged and its corporate seal to be hereunto affixed by its duly authorized representative, and Lee, Higginson & Co. has caused this agreement to be executed and acknowledged by one of its general partners, all as of the day and year first above written.

AKTIEBOLAGET KREUGER & TOLL,
[SEAL.] By IVAR KREUGER, *Director.*
Attest:

K. R. BOKMAN,
Authorized officer.
LEE, HIGGINSON TRUST CO.,
[SEAL.] By DONALD DURANT,
Duly authorized representative.
Attest:

_____,
Duly authorized representative.
LEE, HIGGINSON & CO.,
By DONALD DURANT,
A General Partner.

Skandinaviska Kreditaktiebolaget hereby accepts the appointment as depositary under the foregoing agreement and on the terms and conditions therein set forth.

In witness whereof, said Skandinaviska Kreditaktiebolaget has caused this acceptance to be executed in its name by one of its directors this 29th day of March, 1929.

SKANDINAVISKA KREDITAKTIEBOLAGET,
By H. LAURITZEN, *Director.*

CITY OF PARIS, FRANCE,
Consulate of the United States of America, ss:

I, John R. Wood, vice consul of the United States of America at Paris, France, duly commissioned and qualified, do hereby certify that on this 29th day of March, 1929, before me appeared Ivar Kreuger, to me personally known, who, being by me duly sworn, did depose and say that he resides in Stockholm, Sweden; that he is one of the directors of Aktiebolaget Kreuger & Toll, one of the corporations described in and which executed the foregoing instrument; that he knows the corporate seal of said corporation; that the seal affixed to said instrument is such corporate seal, and that it was so affixed by authority of the board of directors of said corporation, and that he signed his name thereto by like order; and he acknowledges said instrument to be the act and deed of said corporation for the uses and purposes therein mentioned.

In witness whereof I have hereunto set my hand and affixed my official seal this 29th day of March, 1929.

JOHN R. WOOD,
Vice Consul of the United States of America at Paris, France.

CITY OF PARIS, FRANCE,
Consulate of the United States of America, ss:

I, John R. Wood, vice consul of the United States of America at Paris, France, duly commissioned and qualified, do hereby certify that on this 29th day of March, 1929, before me personally appeared Donald Durant, to me personally known, who, being by me duly sworn, did depose and say that he resides in the Borough of Manhattan, city and State of New York; that he is the duly authorized representative of Lee, Higginson Trust Co., one of the corporations described

in and which executed the foregoing instrument; that he knows the corporate seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by authority of the board of directors of said corporation, and that he signed his name thereto by like order and pursuant to the authority vested in him as the representative of such corporation, and he acknowledges said instrument to be the act and deed of said corporation for the uses and purposes therein mentioned.

In witness whereof I have hereunto set my hand and affixed my official seal this 29th day of March, 1929.

JOHN R. WOOD,
Vice Consul of the United States of America at Paris, France.

CITY OF PARIS, FRANCE,
Consulate of the United States of America, ss:

I, John R. Wood, vice consul of the United States of America at Paris, France, duly commissioned and qualified, do hereby certify that on this 29th day of March, 1929, before me personally appeared Donald Durant, to me known and known to me to be a member of the firm of Lee, Higginson & Co. and the person who executed the foregoing instrument in the firm name of Lee, Higginson & Co., and he acknowledged that he executed the same as the act and deed of said firm.

In witness whereof I have hereunto set my hand and affixed my official seal this 29th day of March, 1929.

JOHN R. WOOD,
Vice Consul of the United States of America at Paris, France.

STOCK EXCHANGE PRACTICES

THURSDAY, JANUARY 12, 1933

UNITED STATES SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The subcommittee met, at 10 o'clock a. m., pursuant to adjournment on yesterday, in the Senate Office Building, Senator Peter Norbeck presiding.

Present: Senators Norbeck (chairman), Townsend, Blaine, Couzens, Fletcher, and Costigan.

Present also: John Marrinan, economic adviser to the committee.

The CHAIRMAN. The committee will come to order. The first witness will be Doctor Winkler, who will please come forward, stand, and hold up his right hand and be sworn:

You do solemnly swear that you will tell the truth, the whole truth, and nothing but the truth in the matter now under investigation by this committee. So help you God.

Doctor WINKLER. I do.

TESTIMONY OF DR. MAX WINKLER, ASSOCIATE PROFESSOR OF ECONOMICS OF THE COLLEGE OF THE CITY OF NEW YORK, NEW YORK CITY

(The witness was duly sworn as shown above.)

The CHAIRMAN. Mr. Marrinan, the investigator, will make a brief statement for the record first.

Mr. MARRINAN. Gentlemen of the committee, although Doctor Winkler has been formally subpœnaed before the committee, his coming here is the result of an invitation to testify as an expert for the committee. In qualifying him as a witness it will be noted that in addition to his professional qualifications he is a member of a firm which is a registered member of the New York Stock Exchange. He also comes here with the indorsement of the joint committee of debenture holders of Kreuger & Toll Co. of which Bainbridge Colby is the chairman and Samuel Untermyer is counsel. There ought to be some significance in the fact that we are willing to accept as an expert a man who is associated with a stock-exchange firm.

I can only add that the other witnesses who are to appear here, including two of the more important officials of the New York Stock Exchange, while under subpœna, nevertheless, I believe, may be regarded as wholly willing witnesses.

The CHAIRMAN. You may proceed now to inquire of Doctor Winkler.

Mr. MARRINAN. Doctor Winkler, you are associate professor of economics at the College of the City of New York, is that true?

Doctor WINKLER. Correct.

Mr. MARRINAN. You serve also as economist for the North American Newspaper Alliance, is that correct?

Doctor WINKLER. Correct.

Mr. MARRINAN. And you are a member of the New York Stock Exchange firm of Bernard Winkler & Co.?

Doctor WINKLER. Yes, sir.

Mr. MARRINAN. You are president of the American Council of Foreign Bondholders, is that correct?

Doctor WINKLER. Correct.

Mr. MARRINAN. And you are a member of the joint protective committee of debenture holders of the Kreuger & Toll Co., of which Bainbridge Colby is chairman and Samuel Untermyer is counsel?

Doctor WINKLER. Correct.

Mr. MARRINAN. And from 1922 to 1927 you were manager of the foreign department of Moody's Investors Service, one of the standard services of that character in the United States?

Doctor WINKLER. Correct.

Mr. MARRINAN. Doctor Winkler, will you give your address for the record?

Doctor WINKLER. 315 West One hundred and sixth Street, New York City.

Mr. MARRINAN. Doctor Winkler, will you tell us in nontechnical language what is the difference between a debenture and a bond?

Doctor WINKLER. Regardless of the legal definition, the two words, to my way of thinking—that is, the terms bond and debenture—are practically identical. The one is merely of Anglo-Saxon derivation and the other of Latin derivation. A bond is an evidence of debt binding the debtor to pay it. A debenture is an evidence of debt which means that the one who owes the debt ought to pay it. There is, therefore, to my way of thinking, practically no difference between the two terms.

Senator FLETCHER. Both of them being obligations executed under seal?

Doctor WINKLER. Correct.

Senator FLETCHER. As distinct from a promissory note not under seal?

Doctor WINKLER. I am explaining the terms as the student of bond values would do it, and not with a view to defining the terms from a legalistic point of view. In other words the investor who purchases securities looks upon a bond and a debenture as constituting somewhat the same evidence of indebtedness. There are, however, certain additional features with which the one or the other may be endowed.

Senator FLETCHER. All right. You may continue, Mr. Marrinan.

Mr. MARRINAN. Doctor Winkler, what do you think is meant by a secured debenture? There seems to be an anomaly there to me.

Doctor WINKLER. A secured debenture is an evidence of debt which in addition to being the obligation of the debtor is also secured by a specific pledge of collateral or a specific lien on certain assets or income.

Mr. MARRINAN. Will you give a brief description, in your own way, of the so-called Kreuger & Toll secured debenture issue, explaining those features of the bond which an economist would examine in appraising the obligation as an investment?

Doctor WINKLER. The Kreuger & Toll 5 per cent gold debentures which were sold in March of 1929 to the extent of $50,000,000 were,

in addition to being the obligation of the Kreuger & Toll Co., specifically secured by a pledge of foreign government bonds and government guaranteed bonds, which at the time of the issue had a value of a little over $60,000,000 at par, compared with $50,000,000 which was the par value of the secured debentures. In other words, for every one dollar of par-value debentures there was $1.20 of par value of collateral.

Senator FLETCHER. Those are the same debentures that Mr. Durant told us about yesterday?

Doctor WINKLER. Yes, sir.

Mr. MARRINAN. Now you may continue with your answer.

Doctor WINKLER. If I understand the circular descriptive of the bonds correctly, there were provisions whereby the company could substitute for the pledged bonds other eligible bonds, providing the ratio was not disturbed.

Eligibility was defined, if I understand the prospectus correctly, as constituting bonds of any sovereign government, or of any political subdivision with a population of 300,000 inhabitants. They might also be bonds of mortgage companies guaranteed by governments, or stock of railroad companies on which a minimum dividend was guaranteed by a government.

The trustee could call upon the company to furnish proof as to whether the substituted bonds were eligible. And, if I interpret the prospectus correctly, the company had to merely furnish to the trustee a certificate indicating that the substituted bonds were eligible.

At the time the bonds were sold the collateral, aggregating at par somewhat more than $60,000,000, had a probable market value of at least the equivalent of the bonds that were sold to the public.

With very few exceptions the issues comprising the collateral were regarded as fundamentally sound investments. And the income derived from the pledged securities was in excess of the income needed to pay interest on the 5 per cent debentures sold to the investing public.

Mr. MARRINAN. Doctor Winkler, you had reference in your concluding statement to the original collateral, am I correct in that?

Doctor WINKLER. Yes, Mr. Marrinan.

Mr. MARRINAN. Having been in charge of the Foreign Department of Moody's for quite some time, what rating would you have accorded this Kreuger & Toll issue of 5's upon the basis of their circulars? A speculative, a business man's investment, or what?

Doctor WINKLER. On the basis of the information contained in the prospectus, particularly as regards the pledged collateral, I would have accorded the Kreuger & Toll 5 per cent gold debentures a rating of Baa, which is defined as an adequately protected business man's investment.

Mr. MARRINAN. That is a very high rating comparatively speaking, is it not?

Doctor WINKLER. It is, comparatively speaking.

Mr. MARRINAN. I understand that you would give that rating to the bond on the basis of the representations made about it in its circular, is that correct?

Doctor WINKLER. Partly on the basis of the representations made in the circular, but particularly as regards the specific information as to the nature of the pledged collateral.

Mr. MARRINAN. The nature of the pledged collateral; yes, sir.

Doctor WINKLER. That is it.

Mr. MARRINAN. Doctor Winkler, will you discuss this pledged collateral in such fashion as will bring out fully the substitution feature?

Senator FLETCHER. May I ask before you answer that question: Did there appear in the circular, or any other representations made to the public, a list of this collateral, as to what bonds they were, and so forth?

Doctor WINKLER. Yes.

Senator FLETCHER. All right. Proceed.

Doctor WINKLER. Will you repeat that question, Mr. Marrinan?

Mr. MARRINAN. May I withdraw the question and ask another one: Doctor Winkler, what in your opinion was the force and scope of the eligibility feature in this debenture agreement?

Doctor WINKLER. As I stated a while ago, eligibility was confined to three types of bonds, providing that the withdrawal and the putting in place of the withdrawn bonds, new issues, the ratio as defined in the prospectus was adhered to. In other words, if for every $1 in debentures there would be $1.20 of new bonds. There is, however, another provision which to my way of thinking is a bit unusual, and that is this: If after the substitution the ratio becomes impaired the company is not obligated to make good the deficiency unless it is in the possession of, or unless any affiliate company or companies of Kreuger & Toll, have in their possession eligible bonds.

Mr. MARRINAN. And further, with respect to the matter of eligibility, in the examination yesterday reference was made, perhaps not in well-chosen words, to the possibility of substituting bonds of a minor political subdivision in China. Was there any basis for stating or holding out such a possibility?

Doctor WINKLER. I believe there was if I understand the prospectus correctly, because eligibility is confined to any bond of a political subdivision, regardless of locality, which has a population of more than 300,000 inhabitants.

Mr. MARRINAN. Would it have been possible, Doctor Winkler, under this substitution provision of the indenture to convert obligations, sound obligations in the pledged collateral, into issues which possessed no inherent merit or intrinsic value whatsoever?

Doctor WINKLER. Not entirely; because the substituted bonds had to be of a type which would not disturb the ratio to which we alluded a while ago.

Senator COUZENS. And who would be the judge of that?

Doctor WINKLER. The Kreuger & Toll Co., if I understand the prospectus correctly.

Senator COUZENS. In other words, Kreuger served on all sides of the question.

Doctor WINKLER. It would seem so.

Senator FLETCHER. The trustee had nothing to say about that.

Doctor WINKLER. The trustee had the right to ask the company to furnish proof as to eligibility, and the company would merely have to send a certificate to the trustee advising the trustee that the substituted bonds were eligible.

Senator COUZENS. How many of this sort of indenture have you examined?

Doctor WINKLER. To be frank with you, I have not been in the habit of examining debentures. They are highly technical and extremely difficult for the student of bonds to interpret accurately.

Senator COUZENS. Do you know whether this particular document varied to any great degree from other documents of a like nature?

Doctor WINKLER. I could not answer as to that.

Senator COUZENS. The testimony seems to have been to the effect that this was an unusually liberal indenture. But you could not testify as to that?

Doctor WINKLER. It appears that the indenture, as I interpret it, might be considered liberal. Whether it is unusually liberal or not I am not in a position to state.

Senator FLETCHER. But they allowed the substitution of bonds or securities at par instead of at market value?

Doctor WINKLER. That is correct.

Senator FLETCHER. Is that unusual in a debenture of this kind?

Doctor WINKLER. It would be except for the additional provision in this case that substitution must not, at the time the substitution is made, disturb the ratio. What happens immediately afterwards no one can tell, but at the time of substitution a ratio of 120 per cent with respect to both par value and income must be maintained.

Senator COUZENS. Was that ratio based on par or on actual value?

Doctor WINKLER. The ratio was based on par.

Senator COUZENS. But the return on the security must still maintain the same 120 per cent ratio?

Doctor WINKLER. That is correct.

Senator COUZENS. Doctor Winkler, just what is the purpose in giving to trustees authority to accept substitutions?

Doctor WINKLER. If I understand correctly the situation here the authority for making the substitution was given to the company.

Senator COUZENS. Yes; but what was the purpose of it?

Doctor WINKLER. At the time of the drafting of the document I could very readily see the purpose. Kreuger & Toll Co. was an organization that was doing business in every part of the world, or was alleged to be doing business in every part of the world. And the time might very conceivably come when the Kreuger & Toll Co. would obtain possession, let us say, of concessions in Bulgaria, which would make it necessary for Kreuger & Toll to take over Bulgarian Government bonds, in which case those Bulgarian bonds might be put into this portfolio, in place, perhaps, of or in addition to certain other bonds already existing in the collateral.

Senator FLETCHER. Did you ever have occasion to examine the substituted collateral?

Doctor WINKLER. Yes, sir.

Senator FLETCHER. How did you find that?

Doctor WINKLER. Well, the collateral as such I did not examine, but I did examine the published list of the collateral.

Senator FLETCHER. How did you find that to compare with the original collateral?

Doctor WINKLER. The substituted collateral was in a way similar to that part of the original collateral which was distinctly inferior in quality. But there were no new bonds added to the portfolio. For instance, French Government bonds were withdrawn early in 1930 and in their place, in equal par value, Yugoslavia bonds were put in.

Early in 1930 French Government bonds were regarded as fundamentally secure investments, whereas early in 1930 Yugoslavia bonds were regarded as a distinctly inferior type of security.

Senator COUZENS. Had you been a prospective purchaser of these securities would you have relied upon the name of Lee, Higginson & Co. for investing in the debentures?

Doctor WINKLER. I would personally have purchased the bonds almost exclusively upon the nature of the pledged collateral.

Senator COUZENS. You would have been an unusual investor if you had done that, wouldn't you?

Doctor WINKLER. Possibly so.

Senator COUZENS. From your general knowledge of investors is it not a fact that they rely more on the integrity of the house selling the securities than they do on the details of the flotation, and so forth?

Doctor WINKLER. I should think so, and also upon statements made by what are known here as bond salesmen.

Senator COUZENS. Do you agree with Mr. May, I think it was, who testified on yesterday that there was no legislative remedy for these things?

Doctor WINKLER. At the moment I do not think there is.

Senator COUZENS. Wouldn't it perhaps be a good thing if we put some of these international bankers and these public accountants in jail, who permit these things to go on and mislead the public?

Doctor WINKLER. If the provisions as contained in the various prospectuses, including the official stock exchange listing, had been adhered to, investors would have been afforded a considerable degree of protection, because the requirements as I understand them which are made by the New York Stock Exchange in reference to information to be furnished to the exchange, is to my way of thinking much more comprehensive than any information demanded by any other legitimate exchange in the world.

Senator COUZENS. Do you believe it is impossible for Congress to legislate to punish people who violate those conditions?

Doctor WINKLER. I should think that few things are impossible for Congress to legislate about. [Laughter.]

Senator COUZENS. I did not get your answer to my question, Doctor Winkler.

Doctor WINKLER. I should say, Mr. Senator, that Congress might be able to legislate about anything that is legislatable as it were.

Senator COUZENS. That is hardly an answer to my question. I was asking with relation to specific cases. As I understood Mr. May, of Price, Waterhouse & Co., certified public accountants, to testify on yesterday, he did not believe that Congress could or should legislate to protect the public against this sort of thing. I now ask you if in this particular case you think any legislation could have protected the public.

Doctor WINKLER. I should think so, because they have in Great Britain a somewhat similar situation, where the investing public is afforded a considerable degree of protection by virtue of their so-called companies act, and that is a governmental instrumentality. I therefore see no reason why we could not copy from other nations what is good and worth copying rather than to confine our copying to what is not particularly good or worth copying.

Senator COUZENS. In other words, you do not subscribe to the general propagandist theory that Congress should leave business alone?

Doctor WINKLER. That depends in my opinion upon specific cases.

Senator COUZENS. If you do not care to answer such a question, all right, I will excuse you.

Doctor WINKLER. It will depend in my opinion upon specific cases, I say.

Senator COUZENS. Of course, Congress could not legislate to fit specific cases. So I was asking you a general question.

Doctor WINKLER. I should have suggested that.

Senator COUZENS. And if my inquiry tends to embarrass you, you need not answer it.

Doctor WINKLER. I should suggest in that case that we enact legislation similar to that pertaining to the companies act in Great Britain, which in my opinion affords ample protection to investors by holding all those who may issue prospectuses, that sign statements, liable for the statements contained in such prospectuses or statements.

Senator COUZENS. Liable in a criminal way as well as in a civil way?

Doctor WINKLER. Exactly.

Senator BARKLEY. Doctor Winkler, in making that answer do you take into consideration that we operate in this country under a dual system of government, and that ordinary crimes are punished by the States and not by the Federal Government? And that the Federal Government has jurisdiction only to legislate on such matters as pertain to interstate commerce, or violation of some Federal function? The ordinary fraud perpetrated by a company or a group of men upon individuals is punished by the State and not by the Federal Government. Your suggestion that we copy the law of Great Britain with reference to the matter which you have discussed, would be subject to the difference that in Great Britain their legislative body has full jurisdiction, whereas here, a part of the jurisdiction is under State legislatures and in other matters with the Congress.

Doctor WINKLER. I trust, Mr. Senator, you will appreciate my position, that the suggestion I made comes from one who is not experienced in legislation or in legal matters. I look upon these things from the standpoint of the analyst of bond values, and possibly from the standpoint of the ordinary investor.

Senator BARKLEY. And you are not looking at it from the standpoint of the constitutional lawyer?

Doctor WINKLER. No; not at all. And I could not because I am not familiar either with legislation or with constitutional law.

Senator COUZENS. I hope that is not true as to the Senator from Kentucky.

Senator BARKLEY. Well, of course we all claim to be constitutional lawyers.

Senator COUZENS. So long as we legislate in the matter of interstate traffic in women and narcotics I think we can legislate in this connection.

Senator BARKLEY. I am not making the point that we can not do it, but my question was prompted by the suggestion of the witness that we copy some law of England, in regard to which I desired

to call his attention that Parliament has supreme control over all such matters, whereas there is no such condition in this country, for there is a division of authority between a State and the Congress, and whatever we do must be done under the authority we have as a Federal Government.

Doctor WINKLER. Perhaps I might add that a beginning seems to have been made already in this direction by a ruling issued the other day by the New York Stock Exchange, whereby companies whose securities are listed upon the exchange will have to submit their books to an independent audit, which was as far as I know an entirely voluntary step on the part of the exchange.

Mr. MARRINAN. Doctor Winkler, what is your opinion as an expert as to the value of the collateral at the time the bonds of Kreuger & Toll were originally sold and at the present time if there had been no substitutions? I might say that substantially that question was asked of Mr. Durant on yesterday, and he felt incapable of giving us an estimate. Can you help the committee in that situation?

Doctor WINKLER. The par value of the pledged collateral was in excess of $60,000,000 at the time the debentures were sold to the American public to the amount of $50,000,000.

Senator FLETCHER. Now how about the actual value?

Doctor WINKLER. Some of them had an actual value by reason of being listed, so that it is relatively easy to determine the value of those listed. Others did not have a listed market. But in the spring of 1929 it was a very simple matter to obtain a dependable market value for the unlisted securities merely because similar securities were outstanding in the market. My estimate is, which is based upon the considerations I have just mentioned, that the market value, the conservative market value of the pledged collateral at the time of the issuance of the $50,000,000 of bonds, was at least equal to if not in excess of the $50,000,000.

Senator COUZENS. Then at the time of the substition was there any material difference?

Doctor WINKLER. Oh, yes.

Mr. MARRINAN. Senator Couzens, may I have the witness complete an answer to the second part of my question?

Senator COUZENS. Yes.

Doctor WINKLER. If there had been no substitutions the value to-day, computed similarly, would be at least twenty-four and one-half million dollars.

Mr. MARRINAN. Now, Doctor Winkler, what is the value of the substituted collateral at the present time?

Doctor WINKLER. The value of the substituted collateral, very little of which has a listed market anywhere, and taking into account general-market conditions, is, according to my estimate, somewhat in excess of nine and three-fourths million dollars. In other words, equivalent to at least 20 cents on the dollar of the present outstanding amount of the secured debentures.

Senator COUZENS. Would the maturity of the collateral have any bearing upon the value of the security, outside of the market value?

Doctor WINKLER. Not to my way of thinking, because maturity of foreign government bonds is distinctly a misnomer, for such bonds rarely mature at the maturity date.

Senator COUZENS. Just how are they handled, then? Just how are such securities awarded if they have no maturity date?

Doctor WINKLER. They have a maturity date, but in appraising the value of a foreign-government bond I personally do not permit myself to be influenced by the date of maturity because of my experience in studying foreign-government bonds, which are rarely paid off at maturity. I take into account the existing factors.

Senator COUZENS. But the fact is that they are paid off, because the buyer has the right to get his money or to take a refunding bond, has he not?

Doctor WINKLER. Yes.

Senator COUZENS. In what respect are securities of foreign governments different from our own Federal Government securities?

Doctor WINLKER. Technically speaking they are not.

Senator COUZENS. That is what I wanted to know.

Doctor WINKLER. But the credit standing of one government is different from that of another government.

Senator COUZENS. Yes; but it is quite to be expected that a national government, such as France, is sound, and yet because of some unusual condition the sale price of the bond may go down, or of the security, may go down, as is the case of our own Federal Government at times, to 80 or 85. But that does not change the intrinsic value of the security which the buyer intends to hold until it matures, does it?

Doctor WINKLER. No. But I thought I was to confine my attention to the remaining bonds which to-day constitute the collateral in this case.

Senator COUZENS. Yes. But I was just asking about the general proposition. And my understanding is correct, is that right?

Doctor WINKLER. Absolutely correct.

Senator FLETCHER. Was any question ever raised about these substituted securities being forged?

Doctor WINKLER. According to my information, which I have obtained from those identified with the Kreuger & Toll bonds, the securities which are to-day on deposit with the Swedish Bank are said to be genuine in every respect.

The CHAIRMAN. The forgeries were in another corporation?

Doctor WINKLER. Yes, in another corporation.

Senator COUZENS. If this question embarrasses you, Doctor Winkler, you do not need to answer it: From your observations in this case do you believe that Lee, Higginson & Co. did their full duty to their customers all throughout this transaction?

Doctor WINKLER. Personally I do not think so.

Senator COUZENS. Thank you very much for your answer.

Senator TOWNSEND. Doctor Winkler, would you mind giving the committee your reason why you do not think so?

Doctor WINKLER. It seems to me that where substitutions are permitted it is perhaps the duty of those who distribute the bonds to the public to see to it that when substitutions are made the bonds put in place of the withdrawn bonds are at least as sound intrinsically as the bonds taken out. If I recall correctly, Lee, Higginson & Co. have been floating securities for many years, and I doubt as to whether they would have offered directly to the investing public securities that were put in place of certain other bonds that the Kreuger Co. took out. Therefore, I believe it was to some extent

their duty to see to it that when good bonds are taken out at least equal bonds are put in place of them.

Senator TOWNSEND. Have you any knowledge or do you believe Lee, Higginson & Co. thought they were of equal value to the bonds that were taken out?

Doctor WINKLER. I am afraid I could not answer that question, Mr. Senator.

Senator FLETCHER. As I understand the situation, they do not claim that they knew anything about it. They did not bother about it. Even the trustee did not trouble himself about it very much, just accepted a certificate from Kreuger & Toll. I understood Mr. Durant to say on yesterday that Lee, Higginson & Co. did not know about those substitutions, or if they did they did not investigate, or did not consider it their duty to do so, and the trustee did not know about it, and that trustee was the Lee, Higginson Trust Co.

Mr. MARRINAN. I think the record will show that the Lee, Higginson Trust Co. was advised.

Senator FLETCHER. They were advised, but——

Mr. MARRINAN (continuing). But they claimed that that information was sequestered there and not communicated to anyone in the affiliated banking house.

Senator COUZENS. Doctor Winkler, do you think it was proper to have this exchange of securities at par value instead of at market value?

Doctor WINKLER. In the spring of 1929 it may not have been unusual. To-day it is very much so. Because in the spring of 1929 practically all those bonds that were pledged, or said to have been pledged, were well thought of. In the spring of 1929 there were many more borrowers, or rather there were many more lenders than borrowers. It was easier to lend money than to find a borrower. Therefore, the difference in the spring of 1929 between par value and market value, regardless of the intrinsic soundness of the bond, was practically the same. To-day it is altogether different.

Senator COUZENS. So you do not think the fact that they used par in this case was a premeditated scheme?

Doctor WINKLER. I should not think so.

Senator COUZENS. Do you not think there was some other responsibility of the part of Lee, Higginson & Co. in the matter outside of an examination or consideration of the indenture and the securities deposited with it?

Doctor WINKLER. I think that Lee, Higginson & Co. should have made it their business to obtain information from time to time as to substitutions of collateral, regardless of how serious or how inconsequential such substitutions may have been.

Senator COUZENS. Outside of this particular transaction, isn't it a fact that they placed Mr. Durant on a number of corporations as their representative?

Doctor WINKLER. I am not familiar with that.

The CHAIRMAN. Mr. Durant, testified on yesterday here before the committee that he was a director in the Kreuger & Toll Co. for three years but never attended a directors' meeting.

Senator COUZENS. That was the point I was getting at. I understood that was the testimony, and I was asking Doctor Winkler if in doing that they did not in fact lead their customers to believe that

they were keeping in close contact with those corporations, by putting Mr. Durant on their boards of directors, but perhaps I am beyond what Doctor Winkler is testifying about. If I am he may say he doesn't care to go into that matter.

Doctor WINKLER. I am afraid I am compelled to say I don't know, Mr. Senator.

The CHAIRMAN. This matter of substitution of collateral at par value isn't the customary thing even at that time, was it? In other words, it was not the custom in the market carried down to that period, was it?

Doctor WINKLER. No.

The CHAIRMAN. In other words, it was a new thing.

Doctor WINKLER. Whether it was new or not I could not testify.

The CHAIRMAN. It was not an old thing, then?

Doctor WINKLER. I should not think so.

The CHAIRMAN. No. Now you may proceed with your examination, Mr. Marrinan.

Mr. MARRINAN. Doctor Winkler, you gave us our first information regarding the comparative value of the pledged collateral, which I might say I had previously been unable to ascertain. Do you care to give us some information of a similar character with regard to the comparative income from the originally pledged securities, and from the finally substituted securities, without going into the matter of splitting fractions, but just giving the results approximately?

Doctor WINKLER. All right. If there had been no substitutions the income per annum to-day would amount to $1,681,500, equivalent to a little more than $35 per bond instead of the stipulated $50.

The CHAIRMAN. What is the income now, after the substitution?

Doctor WINKLER. As a result of the substitutions the income at this moment is $628,350, or $13 per annum, approximately one-third of the annual income which would have accrued to the debenture holders if there had been no substitutions.

Mr. MARRINAN. Doctor Winkler, there is a curious provision in the debenture, and I may not state it with technical precision, but substantially it says that if the income requirements fall below the 120 per cent ratio yet the bonds are not to be regarded in default. Is that a usual provision, and, if so, what does it mean?

Doctor WINKLER. It means exactly what it says, that if the income falls below the stipulated ratio the bonds should not be regarded as being in default, the belief being, I suppose, that income would come from other sources. But it seems to me that a provision of this sort is not—or rather I should say, a provision of this sort does not afford all the protection that a buyer of bonds is perhaps entitled to.

The CHAIRMAN. Is that a usual provision in these indentures?

Doctor WINKLER. I could not say.

The CHAIRMAN. Have you ever known of any other case like it?

Doctor WINKLER. I have not.

The CHAIRMAN. All right. That answers it sufficiently for me.

Senator COUZENS. Is it usual that when collateral falls down, as it did in this case, to require additional collateral in order to bring it up to protect the securities?

Doctor WINKLER. If I understand the prospectus correctly, if there is a deficiency as far as the income or the par value are concerned, the company agrees to make up such deficiency, providing it has in its possession bonds of the eligible type.

Senator COUZENS. That is, with specific reference to this particular indenture.

Doctor WINKLER. Correct.

Senator COUZENS. But I was asking if you know what the usual practice is with respect to such a situation. I have seen these indentures where they required, in case the collateral fell below the amount fixed at the time, that additional collateral should be deposited in order to maintain the security. Do you know of any case such as that?

Doctor WINKLER. No; I do not. My impression is that indentures are rarely read before the bonds are bought, but are read after there is default.

Senator COUZENS. We are quite well aware of that. [Laughter.]

The CHAIRMAN. Therefore, there is all the greater responsibility upon the man writing the debenture, the trustee who administers it, and so on, than there would be otherwise. The public really ought to have their protection. The public are not usually suspicious of the instrument and as a rule do not even read it. They rather see who is connected with the undertaking, isn't that it?

Doctor WINKLER. I should think so, Mr. Chairman.

The CHAIRMAN. All right.

Mr. MARRINAN. Doctor Winkler, have you examined the listing application of the Kreuger & Toll Co., which was filed August 6, 1929, and approved August 14, of that year, for listing this issue on the New York Stock Exchange?

Doctor WINKLER. I have.

Mr. MARRINAN. If the provisions of that agreement, contained in the listing application, had been fully complied with the American investor would have received more protection than he actually got, isn't that true?

Doctor WINKLER. My impression is that if all the provisions contained in the stock exchange listing sheet had been carried out by the company, the sheet which was used in applying for a listing of these bonds, the investor would have had all the protection that he could possibly obtain. Because among the things the applicant for listing agreed to furnish to the exchange are the following:

To publish a statement of earnings annually.

To publish promptly to holders of bonds any action in respect to interest on bonds.

To notify the stock exchange if a deposit of collateral is changed or removed.

Mr. MARRINAN. Whose job was it to see that that was done, or was there anybody in the picture definitely charged with that responsibility?

Doctor WINKLER. The company agreed to furnish this information to the exchange.

Senator TOWNSEND. That is a requirement of the New York Stock Exchange, is it not?

Doctor WINKLER. Oh, yes.

Mr. MARRINAN. Doctor Winkler, my attention has been called to the following statement, attributed to the Lee, Higginson Trust Co., in the Commercial and Financial Chronicle of New York under date of March 26, 1932:

Substitutions have been made in the Kreuger & Toll secured debenture issue in accordance with the terms of the indenture.

And, furthermore:

Information as to the collateral has been currently available to debenture holders throughout the life of the issue in the office of the trustee.

Do you agree that the substitutions were made in accordance with the provisions of the indenture?

Doctor WINKLER. I should think so. But I should like to qualify that answer to this effect. That although I have examined the listing of the bonds pledged originally, as well as the bonds substituted in place of the original collateral, it is difficult for me to tell whether at the time the changes were made the provisions of the indenture were carried out in full. On the whole it would seem that they have been carried out literally. If you inquire as to the relative merit of substituted bonds for withdrawn bonds, I would be able to say that invariably an inferior bond was put in in place of a distinctly good and sound investment.

Senator COUZENS. Is it practicable to sell such securities without the power of substitution? I do not mean to sell them, but is it practicable from a business standpoint to have it so that these securities may not be substituted when such securities are sold?

Doctor WINKLER. It is very often done.

Senator COUZENS. Do you mean it is often done where no substitution is permissible?

Doctor WINKLER. Yes.

The CHAIRMAN. And where it is permitted it is with securities of equal or greater value?

Doctor WINKLER. Yes, sir.

The CHAIRMAN. A moment ago you spoke of the company having agreed to do certain things. One of the representatives of the press has just said to me he did not know whether you meant by that statement Lee, Higginson & Co. or Kreuger & Toll Co.

Doctor WINKLER. The application to the New York Stock Exchange was signed by the Kreuger & Toll Co., by Donald Durant, director. In other words, the Kreuger & Toll Co., or rather Donald Durant for and on behalf of the Kreuger & Toll Co., agreed to furnish this information.

The CHAIRMAN. So that it was the Kreuger & Toll Co. that had agreed to furnish the information?

Doctor WINKLER. Yes, sir.

The CHAIRMAN. Through Donald Durant?

Doctor WINKLER. Yes, sir.

The CHAIRMAN. Yesterday he did not seem to know about the Kreuger & Toll Co. Go ahead, Mr. Marrinan.

Mr. MARRINAN. At least he never attended a directors' meeting.

The CHAIRMAN. No.

Mr. MARRINAN. To return to the second part of that quotation from the Commercial and Financial Chronicle of New York:

Information as to the collateral has been currently available to debenture holders throughout the life of the issue on the office of the trustee.

Do you think that information of such importance as the status of the pledged collateral under the various substitutions, and its remaining merely on file in the office of the trustee without the trustee or the bankers or the New York Stock Exchange or any of the institutions involved, making some effort of their own, on their own initiation if

the trustee did not undertake that responsibility, to apprise the holders of the bonds of the status from time to time of the pledged collateral, was sufficient?

Doctor WINKLER. I think in view of the important changes that took place the trustee should, without any question, have notified those who were invited to subscribe to those bonds originally, and particularly since the information, as the trustee seems to have admitted, was available at the offices of the trustee.

Mr. MARRINAN. Doctor Winkler, from your knowledge—and if this is an embarrassing question I wish you would so state and I believe the chairman will consent to have you relieved of making an answer to it—from your knowledge of practices in financial circles is it your opinion that information available or made available to the trustee of this issue, Lee, Higginson Trust Co., did as a matter of routine reach the firm of Lee, Higginson & Co., and other members of the syndicate which sold the Kreuger & Toll securities?

Doctor WINKLER. I could not possibly answer that question because I do not know. As I understand the information was available at the office of the Lee, Higginson Trust Co. Whether they used it to their own advantage, whether they communicated the information to any members of the syndicate that sold the bonds, I really do not know.

Mr. MARRINAN. They were a little less sound bankers if that information were available and they did not know about it, isn't that true?

Doctor WINKLER. If they had got possession of the information, the investor might possibly have excused it. But inasmuch as the trustee, who acts as far as I can make out for the investor as against the company, it might have been advisable to at least tell the public of the changes that had taken place.

Mr. MARRINAN. Do you think it a healthy arrangement, and I do not propose to go into any legalistic phases, but is it a healthy set-up wherein there is an interlocking directorate and quite an apparent community of interest between the issuing company, the bankers floating the issue, and the trustee; is it a healthy set-up from the standpoint of the investor, and especially in a situation such as we have here where the investor quite apparently was kept in ignorance of the true condition of this particular issue?

Doctor WINKLER. It is unhealthy only in so far as the trustee does not acquaint the investor with information which he could use to advantage.

Senator COUZENS. Well, right at that point: Assuming that this substitution had been broadcast to all investors, just what effect would it have had upon the securities in your opinion?

Doctor WINKLER. It depends upon the time at which such broadcast might have been made.

Senator COUZENS. Well, at the time of the substitution.

Doctor WINKLER. If at the time when the substitutions were made, it might have led very many holders of Kreuger & Toll debentures to dispose of their bonds. It might have led the banking houses identified with the Kreuger & Toll financing to undertake a very careful study of the Kreuger & Toll situation, and they might have detected irregularities before they assumed the gigantic proportions they did subsequently assume.

Senator COUZENS. I assumed that that would be correct, in part at least. But as to a person only who made it almost his exclusive business of making investments. On the other hand, to the average purchaser of these securities, knowledge of the substitutions would in all probability have had little influence upon him; isn't that so?

Doctor WINKLER. Perhaps so.

Senator COUZENS. In other words, he would not be much disturbed so long as the trustee was satisfied.

Doctor WINKLER. Correct.

Senator COUZENS. I think the greater responsibility would be upon the trustee.

Doctor WINKLER. Yes, sir.

Senator COUZENS. And if you and I were just casual investors in these securities, we would have paid little or no attention to the receipt of a notice that there had been a substitution such as this, isn't that correct?

Doctor WINKLER. I should think so.

Senator COUZENS. So after all much of this difficulty that occurs is caused no doubt by the faith the investor has in the issuing house. What is your answer to that?

Doctor WINKLER. Yes, sir.

The CHAIRMAN. Wouldn't it be well to add to that the faith in fact that the New York Stock Exchange has passed on the indenture and approved it?

Doctor WINKLER. The information furnished to the stock exchange is so comprehensive and so detailed so far as the information goes; yes. I do not know whether it is physically possible for any institution where thousands upon thousands of issues are listed, personally to investigate the accuracy of every statement made.

The CHAIRMAN. That is not a response to my question, but you perhaps did not understand it. The public had faith in the fact that it is a listed stock; is that right?

Doctor WINKLER. To a considerable extent.

The CHAIRMAN. And it only becomes a listed stock because the stock exchange has approved it.

Doctor WINKLER. Yes, sir.

The CHAIRMAN. The other point you raise is whether the stock exchange is trying to do more business than they can attend to, and I do not want to go into that.

Senator COUZENS. Is it practicable, Doctor Winkler, to require some governmental agent to certify to the facts contained in a prospectus before it is allowed to be issued?

Doctor WINKLER. It would be almost an impossible task. I am afraid I will have to go back to what I said awhile ago—an instrumentality similar to the companies act in Great Britain, where those who sign statements assume responsibility, which means that they will not sign statements unless they feel that those statements are accurate in every detail.

Senator COUZENS. Yes; but you have to do more than feel, sometimes. You have to know and not just feel that these statements are accurate.

Doctor WINKLER. If they know that their misstatements will be punishable by law, and severely punishable by statute, they will take pains to see to it that the statements are accurate in every detail.

Mr. MARRINAN. So that you think that that would be a better governmental procedure?

Doctor WINKLER. It would seem to me so.

The CHAIRMAN. Do you have reference to the officers of the exchange in that statement? To make them responsible for it?

Doctor WINKLER. No. Those that issue statements on the basis of which the public money is put up—that is, officers and directors of corporations whose securities are traded in in the markets.

The CHAIRMAN. To be effective that would have to be done by the State of New York or the New York Stock Exchange, or the Federal Government would have to find a way of reaching them, is that it, Doctor?

Doctor WINKLER. Precisely.

Mr. MARRINAN. Doctor Winkler, there has been frequent mention of the withdrawal of the French bonds. On January 23, 1930, Kreuger withdrew $13,416,000 in French bonds and substituted therefor about $13,000,000 of Serbian 6¼ per cent and Hungarian land reform 5½ per cent bonds. How did these Serbian and Hungarian bonds compare in value as sound collateral, giving consideration to their marketability, with the French bonds, which were withdrawn?

Doctor WINKLER. The French bonds that were withdrawn on January 23, 1930, constituted at the time of withdrawal fundamentally secure investments enjoying ready marketability not only on the Paris Stock Exchange, but everywhere.

Senator COUZENS. Of what value?

Doctor WINKLER. Of practically the par value. The market value of the withdrawn bonds was practically equivalent to the par value. On the other hand, early in 1930 conditions in Central Europe and in the Balkans were distinctly unsatisfactory, and were growing worse every day, so that the substituted Yugo-Slav and Hungarian bonds not only did not have a market, but even if they had had a market would have been appraised at very substantially below the par value.

Senator COUZENS. How much below?

Doctor WINKLER. I should say the very maximum at which those bonds might have found a buyer would have been between 40 and 50 cents on the dollar. And I am erring on the liberal side.

Mr. MARRINAN. Doctor Winkler, I have been told that Lee, Higginson & Co. issued a circular some time in May, 1931, advertising Kreuger & Toll participating debentures at a time after important changes had taken place in this pledged collateral in the secured debenture issue. If the bankers had the information which the trustee possessed were they justified in those circumstances in recommending either the secured debentures or the participating debentures as of May, 1931?

Doctor WINKLER. If they were in the possession of the information——

Mr. MARRINAN. First, Doctor, are you familiar with such a Circular?

Doctor WINKLER. Are you sure you do not refer to a circular dated January, 1932?

Mr. MARRINAN. I was coming to that next. There was a series of them. You may answer the question for the January circular if you so desire.

Doctor WINKLER. In January, 1932, there was a circular issued by Lee, Higginson & Co. recommending the purchase of an issue which was junior to the secured debentures, as an undervalued security.

Senator COUZENS. Describe what you mean by an undervalued security.

Doctor WINKLER. I shall read from this circular:

> Kreuger & Toll Co. American certificates are now selling at about 6 * * *. Taking into consideration facts alone and not general apprehension unsupported by facts, they represent, in our opinion, an interesting commitment from the standpoint of price in relation to intrinsic value.

Senator COUZENS. And that is what you mean by an undervalued security. Let me see that, will you please?

Mr. MARRINAN. That circular contained a rather enthusiastic indorsement by Ivar Kreuger himself, did it not?

Doctor WINKLER. I believe it did.

Mr. MARRINAN. And that was during the month when the firm of Price, Waterhouse & Co. in behalf of the International Tel. & Tel. and in the Ericsson Telephone deal was discovering certain irregularities which were of consequence and had considerable bearing upon Kreuger's methods of doing business, is that not true?

Doctor WINKLER. I gather that, Mr. Marrinan, from reports in the newspapers and from the testimony yesterday.

Mr. MARRINAN. And yet at that time and at least with some important people in the Street in a position to question Kreuger and his methods, we have here a circular going forth to investors urging purchases of these participating debentures, is that not true?

Doctor WINKLER. Yes, Mr. Marrinan.

Mr. MARRINAN. As a sort of blanket question, which may be too casual and inexact for one of your precision of thought to answer, and if so I will restate it—is it true that Kreuger with all his swindling deported himself better under the terms of the secured debenture agreement than he was legally obligated to do had he exercised fully the latitude given to him?

Doctor WINKLER. I should say so, Mr. Marrinan.

The CHAIRMAN. In other words, he was operating under an agreement——

Doctor WINKLER. In other words, Mr. Kreuger, instead of substituting Yugo-Slav bonds for French bonds might have substituted bonds distinctly inferior to Yugo-Slav, such as Bolivian internal bonds or Paraguayan internal bonds.

The CHAIRMAN. Or most anything which could be called a bond.

Doctor WINKLER. Or most anything by the name of bond or debenture, providing it was paying interest at the time of substitution.

The CHAIRMAN. Provided it had made one payment of interest?

Doctor WINKLER. At the time of substitution.

The CHAIRMAN. And that was the agreement that was approved and that he was operating under?

Doctor WINKLER. It seems so, Mr. Chairman.

Senator COUZENS. Have any of the substituted bonds defaulted?

Doctor WINKLER. The Hungarian bonds, the Yugo-Slav bonds, and the Ecuadorian bonds are in default.

Senator COUZENS. As to interest only?

Doctor WINKLER. As to interest only. But I must qualify that to a certain extent. Both Hungary and Yugoslavia are paying the interest on these bonds in their native currencies at par of exchange, depositing such payments with local institutions to the credit of for-

eign bondholders or creditors. But inasmuch as the current market value of these currencies is substantially below the par value, the payment, even if it were available, would be considerably below that which is scheduled to be payable to the creditors.

Senator COUZENS. Well, does the bond itself specify what currency?

Doctor WINKLER. Yes; the bond is a gold dollar bond.

Senator COUZENS. And so as to the difference between the depreciated currency and the gold dollar, to that extent they are in default; is that it?

Doctor WINKLER. As far as the creditor is concerned they are in complete default, because the creditor can get nothing out of those countries. He merely has a receipt, if he has that much, which shows that money is being deposited to his credit, but he can not use such deposited funds.

Senator COUZENS. All he can do if he wants to use it is to go over there and spend it; is that right?

Doctor WINKLER. And obtain special permission——

Senator COUZENS. Yes.

Doctor WINKLER (continuing). How and when he may use it within the country.

The CHAIRMAN. There were a large number of substitutions from the time bonds were issued clear down to Kreuger's death, were there not?

Doctor WINKLER. Yes; Mr. Chairman.

The CHAIRMAN. And each one substituted bonds of par value, but of lower intrinsic value?

Doctor WINKLER. In practically every case. And also bonds that had a market were taken out where bonds that had no market were put in.

The CHAIRMAN. In other words, inferior bonds were substituted right along up to his death. You spoke of certain South American bonds that might have been used. I am wondering what might have happened if he had lived another month. We might have had them, eh?

Doctor WINKLER. This I could not answer, Mr. Chairman.

The CHAIRMAN. No; but there was no reason why they could not have been put in?

Doctor WINKLER. No. Provided they lived up to the provisions.

The CHAIRMAN. Provided they lived up to the specifications, which were not hard.

Mr. MARRINAN. Doctor Winkler, there was a mention here yesterday of a certain delicacy in this situation by reason of negotiations proceeding between American creditors and these Swedish companies and possibly the Swedish Government. I have no desire to ask a question which in any manner might embarrass that situation. With that in mind I struck from my list many questions yesterday which I had intended to ask. This question may fall into that category. If it does, please so indicate.

It has been stated that there has been a progressive siphoning of the assets of the Kreuger enterprises into Sweden while their liabilities were being dumped in America. Have you any knowledge bearing upon this allegation?

Doctor WINKLER. My only answer to this question would be that Kreuger & Toll securities, or rather "insecurities," were sold in the

American market, whereas collateral pledged or scheduled to be pledged was deposited in Sweden. In other words, we hold a note evidencing indebtedness, whereas in Sweden the concrete assets are on deposit.

I hope that answers your question, Mr. Marrinan.

Mr. MARRINAN. That answers the question completely.

Senator COUZENS. May I ask, Doctor Winkler, if you read this particular circular of Lee, Higginson & Co., dated January, 1932?

Doctor WINKLER. Yes, I have, Mr. Senator.

Senator COUZENS. With your familiarity with the British companies act would you consider this a circular in violation of that act?

Doctor WINKLER. Very definitely so, Mr. Senator.

Senator COUZENS. Well, a careful reading of the circular shows a very great evasiveness as to any promises or statement of fact, and it seems to me a very shrewdly and dishonestly drawn statement, because you are unable to pin any direct fact in the statement. And I wondered how the companies act such as you have referred to would catch a statement of this sort.

Doctor WINKLER. I am of the opinion, Mr. Senator, that the British companies act, as far as I am familiar with the important features of the act, would afford protection definitely in this case, regardless of evasive statements, actual or alleged, contained in the circular.

Senator COUZENS. In other words, you believe that if we had an act over here such as the British companies act that the issuers of this statement could have been punished under the act?

Doctor WINKLER. I am inclined to think so, Mr. Senator.

Senator COUZENS. Is this in the record?

The CHAIRMAN. No.

Senator COUZENS. I would like to have it go in the record at this point.

The CHAIRMAN. If there is no objection it will be so ordered. It may be printed in the record at this point.

(The circular of Lee, Higginson & Co., dated January, 1932, headed An Undervalued Security, is here printed in the record in full, as follows:)

AN UNDERVALUED SECURITY

Kreuger & Toll Co. American certificates are now selling at about 6 on the New York Stock Exchange. Taking into consideration facts alone and not general apprehension unsupported by facts, they represent, in our opinion, an interesting commitment from the standpoint of price in relation to intrinsic value.

In the inclosed circular are given an outline of the company's business, its investments, and figures taken from the balance sheet as of December 31, 1930. These figures indicate the strong earning power and asset value available for the certificates. Since their publication, and particularly in recent months, as we all know, prices in general have fallen, and at the moment considerable uncertainty as to the future exists in the minds of the investing public. Clarification of the general situation is difficult owing to the many factors involved, and the many attempts to do so are difficult of interpretation so far as shedding light on the future market values of securities is concerned. What can be relied upon, however, is the fact that the world has emerged from all previous depressions and the essentially sound enterprises have survived with a substantial recovery in value of their security issues taking place as conditions improved.

At their present market price, the equity issues of Kreuger & Toll Co. are selling for about $64,500,000 as compared with about $237,000,000 at the close of 1930. This reflects the political and economic difficulties prevailing in Europe

for an interest in Kreuger & Toll Co. represents ownership in a cross section of some of the most important European enterprises, including control of the world's largest match manufacturer, of its greatest iron ore properties, and of Sweden's largest wood-pulp producer, besides a substantial interest in the second largest concern in the communication field; the company is also creditor of many European countries. Unless one lacks all faith in the future of the world, and in the preservation of its economic structure, it seems obvious that these assets will not continue to be valued as they are at the present time, values which not only write off entirely the company's holdings of Government bonds, totaling over $100,000,000, but also write down its other available assets to about 30 per cent of their book value.

In spite of prevailing anxiety over political and private government debts and without denying that difficulties exist for any company engaged in international trade, we believe that Kreuger & Toll American certificates are currently underpriced.

LEE, HIGGINSON & Co.

JANUARY, 1932.

Mr. MARRINAN. To continue briefly Senator Couzens's line of inquiry with respect to the British companies act, is it not true, Doctor Winkler, that directors of companies are held responsible under the law for statements made in prospectuses or circulars?

Doctor WINKLER. Not only are they held responsible for statements made, but they are held responsible for statements which they do not make and which they should make.

Mr. MARRINAN. Is it not also true that all underwriting fees and commissions in connection with the flotation of various issues are as a matter of law required to be included in balance sheets, and where there is an omission, whether deliberate or accidental, there is a liability for penalty? Isn't that provision in the act?

Doctor WINKLER. I believe it is, Mr. Marrinan, if I remember the provisions of the act correctly.

Mr. MARRINAN. Can you state, because it rounds up in an impressive manner the entire situation within the British companies act, as it is of interest to the committee, the story of the Lord Kylsant case, which I believe is quite recent?

Doctor WINKLER. Yes, Mr. Marrinan. If the committee will permit me I shall read excerpts from an article contained in The Law Times of November 14, 1931, relative to the alleged falsification of prospectuses sponsored by Lord Kylsant, head of the Royal Mail Steamship Co. I read in part:

The appellant—

That is Lord Kylsant——

Senator COUZENS. Do they punish Lords over there?

Doctor WINKLER. Twelve months' imprisonment, Mr. Senator. [Continuing reading:]

who had been the chairman of the Royal Mail Steamship Packet Co., was charged that he, as a director of that company, published a prospectus, which he knew to be false in a material particular, inviting subscriptions to a debenture issue, with intent to induce persons to subscribe or advance money to the company. * * * The prospectus, which was published in 1928, contained a statement of the capital issued and fully paid, of the existing debenture stock, of the reserve fund, and the insurance fund; and, after setting out the history of the company and stating that the object of the issue was to provide additional capital * * * it set out a table of the dividends paid for the year 1911 to the year 1927, inclusive, those dividends varying from 5 up to 8 per cent. * * * The prospectus did not state that for a number of years immediately preceding it the company had sustained losses on its trading and investment income, after allowing for depreciation; or that the dividends for those years had ultimately been paid out of the earnings of the war period.

It is held, therefore, that a document could be false, where by a number of statements a false impression was intentionally conveyed, although each statement taken by itself might be true, applied to a criminal as well as to a civil case, and that the prospectus in the present case was accordingly false within the meaning of the section, because it put before intending investors, as materials upon which they could exercise a judgment on the existing position of the company, figures which apparently disclosed the existing position, but in fact concealed it.

Mr. MARRINAN. Doctor Winkler, where in this entire situation was the interest of investors protected in a manner worthy of the institutions involved?

Senator COUZENS. Before that is answered, Mr. Chairman, may I have that document that Doctor Winkler just read from put in the record fully?

The CHAIRMAN. How many pages is this, Doctor?

Doctor WINKLER. Well, there are only three pages, but it is the only copy I have.

The CHAIRMAN. Will you furnish us a copy later?

Doctor WINKLER. Yes.

The CHAIRMAN. If there is no objection that may be furnished and placed in the record at this point.

(The quotation from The Law Times of November 14, 1931, presented by Doctor Winkler is here printed in the record in full as follows:)

COURT OF CRIMINAL APPEAL, REX *v.* KYLSANT

Avory, Branson, and Humphreys, Judges. November 2, 3, and 4. Criminal law—Fraud by director—Publication of fraudulent prospectus—No positive false statement—False impression conveyed by number of statements—Concealment of true position of company—Whether prospectus "false in any material particular"—Larceny act 1861 (24 and 25 Vict., ch. 96, sec. 84).

Appeal against conviction. The appellant, who had been the chairman of the R. M. S. P. Co., was charged (inter alia) that he, as a director of that company, published a prospectus, which he knew to be false in a material particular, inviting subscriptions to a debenture issue, with intent to induce persons to subscribe or advance money to the company, contrary to section 84 of the larceny act 1861. He was convicted on this charge at the central criminal court and was sentenced by Wright, judge, to 12 months' imprisonment in the second division. On other counts, which charged him with publishing accounts which he knew to be false in material particulars, he was acquitted. The prospectus, which was published in 1928, contained a statement of the capital issued and fully paid, of the existing debenture stock, of the reserve fund, and the insurance fund; and, after setting out the history of the company and stating that the object of the issue was to provide additional capital for a new freehold building and for the general purposes of the company, it proceeded:

"The interest on the present issue of debenture stock will amount to £100,000 per annum. Although this company, in common with other shipping companies, has suffered from the depression in the shipping industry, the audited accounts of the company show that during the past 10 years the average annual balance available (including profits of the insurance fund), after providing for depreciation and interest on existing debenture stocks, has been sufficient to pay the interest on the present issue more than five times over. After providing for all taxation, depreciation of the fleet, etc., adding to the reserves, and payment of dividends on the preferred stocks the dividends on the ordinary stock during the last 17 years have been as follows:"

And then it set out a table of the dividends paid for the year 1911 to the year 1927, inclusive, those dividends, varying from 5 up to 8 per cent, and down, on one occasion in 1926, to 4 per cent, but in 1927 again rising to 5 per cent. The prospectus did not state that for a number of years immediately preceding it the company had sustained losses on its trading and investment income after allowing for depreciation, or that the dividends for those years had ultimately been paid out of the earnings of the war period. It was conceded at the trial that every statement that appeared in the prospectus was true, and it was contended on behalf of the appellant (inter alia) that there was no evidence that

the appellant had published a prospectus which was false in any material particular.

Held, that the principles laid down in Peek *v.* Gurney (L. Rep. 6 H. L. 377) and Aaron's Reefs Limited *v.* Twiss (74 L. T. Rep. 794, 1896, A. C. 273) that a document could be false, where by a number of statements a false impression was intentionally conveyed, although each statement taken by itself might be true, applied to a criminal as well as to a civil case, and that the prospectus in the present case was accordingly false within the meaning of the section because it put before intending investors, as materials upon which they could exercise a judgment on the existing position of the company, figures which apparently disclosed the existing position, but in fact concealed it. Appeal dismissed.

(Counsel: For the appellant, Sir John Simon, K. C., J. E. Singleton, K. C., and Wilfrid Lewis, instructed by Holmes, Son and Pott; for the Crown, Sir William Jowitt, K. C. (A.-G.), D. N. Pritt, K. C., and Eustace Fulton, instructed by the director of public prosecutions.)

Mr. MARRINAN. Read the question that I put to Doctor Winkler.

(Thereupon the question was read by the reporter, as above recorded, as follows:)

Doctor Winkler, where in this entire situation was the interest of investors protected in a manner worthy of the institutions involved?

Doctor WINKLER. I do not believe I could answer this question satisfactorily because the results more or less speak for themselves. If a bond purchased for approximately 100 cents on the dollar declines on the market to 12 cents on the dollar as a result, to some extent, of carelessness on the part of those whose duty it seems to have been to look after the interests of investors, I should think that the investing public did not receive adequate protection.

Mr. MARRINAN. Is there anything additional, Doctor Winkler, which you may voluntarily submit to the committee by way of helpfulness in dealing with the general problem which is here under consideration?

Doctor WINKLER. I should like to submit, Mr. Marrinan, if you will permit, very briefly the chief provisions of the British companies act and also of a German measure that is being proposed to-day as a result of irregularities in connection with company statements and which led to rather substantial losses on the part of investors. It is very brief, and if the committee will permit me I should like to read it, or just submit it.

Senator COUZENS. I suggest, Mr. Chairman, that he submit it in the record. We will have to give it more consideration.

The CHAIRMAN. If there is no objection that may be done. Would you outline it just briefly, Doctor Winkler, and then submit it for the record?

Doctor WINKLER. For example, in Great Britain the revised companies act makes it compulsory for all British companies to keep fuller and more current business records; to expand the scope of information concerning conditions and operations made available to the public, and at the same time provide safeguards against inaccuracies and misrepresentations; to define more clearly the duty of company directors and impose more severe penalties for their negligence or dishonest performance; and to safeguard further the original issuance and subsequent distribution of securities among the investors. Provision is also made for the protection of minority interests, the revised act specifying methods whereby, under just provocation, minority stockholders could invoke governmental aid, enforcing special audits and examinations of the company's affairs.

(The statement presented by Doctor Winkler is here printed in full in the record, as follows:)

From the information I have been able to gather on the basis of indentures analyzed, I concluded that the investing public is afforded little, if any, protection, either through the indenture or through circulars or prospectuses descriptive of loans offered to them.

It seems to me that the only way to remedy this situation is to enact in this country legislation similar to that enacted in foreign countries, notably Great Britain and Germany, which would give investors much needed protection.

In Great Britain, for example, the board of trade in 1925 appointed a committee of men prominent in financial and business life, who were charged with studying the companies act and with making specific recommendations. In May, 1926, the committee submitted to Parliament a report summarizing the findings and containing recommendations. After due consideration, Parliament, in May, 1929, enacted a revised companies act, entirely in accordance with the suggestions submitted by the committee and contained in their report.

The revision of the act makes it compulsory for all British companies to keep fuller and more current business records; to expand the scope of information concerning conditions and operations made available to the public, and at the same time provide safeguards against inaccuracies and misrepresentations; to define more clearly the duty of company directors and impose more severe penalties for their negligence or dishonest performance; and to safeguard further the original issuance and subsequent distribution of securities among the investors. Provision is also made for the protection of minority interests, the revised act specifying methods whereby, under just provocation, minority stockholders could invoke governmental aid, enforcing special audits and examinations of the company's affairs.

The provisions of the law were felt especially keenly when Lord Kylsant, head of the Royal Mail, was sentenced to one year's imprisonment for misrepresentation of annual earning figures in a prospectus issued over his signature.

In Germany the Government, in September, 1931, prompted by the revelations in connection with the failure of a number of important corporations, promulgated an emergency decree which amends and radically transforms the existing commercial code. The amendments prescribe in great detail the nature of the records every limited-liability company must keep. Particular stress is laid upon the annual balance sheet and profit and loss account, for which very comprehensive standardized forms are provided. It is also made compulsory for all company figures and reports to be officially audited by independent certified accountants, and as no such class of professional accountants existed at the time in Germany, the amendments provide for their creation. Emphasis is also given to much more frank and extensive publicity which must be accorded to company reports. The duties of managers and directors are clearly defined, and heavy penalties are established for their improper performance.

In view of the connection between banks and industrial companies, the amendments provide also for the setting up of a machinery for a system of governmental banking control which would also directly affect the administration of ordinary business companies.

It is, therefore, apparent that only through the enactment of legislation similar to the above will we be able to give the American investing public protection.

Senator COSTIGAN. Doctor Winkler, has any legal question been raised with respect to the ownership of the substituted collateral?

Doctor WINKLER. Yes, Mr. Senator.

Senator COSTIGAN. Will you state what the question is?

Doctor WINKLER. When I was invited immediately after the Kreuger collapse to become a member of an independent protective committee for Kreuger & Toll 5 per cent secured gold bonds I accepted because I felt that the collateral, in spite of the substitutions, was quite valuable, and that given time and improvement in general world conditions the holders of the bonds stand a fairly good chance of recouping their losses. I therefore tried to secure information as to whether the collateral was actually on deposit with the Swedish bank, and whether the collateral, if on deposit in Sweden, belongs exclusively to the debenture holders, as it should on the basis of

information originally furnished and which served as a basis for subscription to the bonds. I was told by counsel that the question of ownership is doubtful. In other words, the collateral which is on deposit may after all be claimed by those except the ones who put up their money.

The CHAIRMAN. You have in your work examined a great many of these agreements or indentures, have you not?

Doctor WINKLER. No, Mr. Chairman, I have not.

The CHAIRMAN. You have not. Very well. That will be all.

Mr. MARRINAN. Thank you very much, Doctor.

Is Mr. Altschul present?

The CHAIRMAN. I do not know how long we can continue. It depends on what matters come up in the Senate. But the next witness will be sworn and we will proceed.

You do solemnly swear that you will tell the truth, the whole truth and nothing but the truth, regarding the matter now under investigation by the committee, so help you God?

Mr. ALTSCHUL. I do, sir.

TESTIMONY OF FRANK ALTSCHUL, BANKER, NEW YORK CITY

(The witness was duly sworn, as above indicated, by the chairman of the committee.)

Mr. MARRINAN. Mr. Altschul, will you give to the reporter your full name and address?

Mr. ALTSCHUL. Frank Altschul, 550 Park Avenue, New York City.

Senator COUZENS. What is your occupation?

Mr. ALTSCHUL. I am a banker, sir.

Senator COUZENS. Banker?

Mr. ALTSCHUL. Yes.

Senator COUZENS. Well, what kind of a banker? Investment banker, international banker, or domestic banker, or what?

Mr. ALTSCHUL. International banker, sir.

Senator COUZENS. International banker. I am glad you hesitated about saying that.

Mr. MARRINAN. Mr. Altschul, you are a partner in a firm which is a registered member of the exchange?

Mr. ALTSCHUL. Yes, sir.

Mr. MARRINAN. You are a member of the governing committee of the exchange?

Mr. ALTSCHUL. Yes, sir.

Mr. MARRINAN. Are you on any of its standing committees?

Mr. ALTSCHUL. Yes, sir.

Mr. MARRINAN. Which ones are you on, or which one is the more important?

Mr. ALTSCHUL. I am on the committee on stock list, sir.

Mr. MARRINAN. Am I correct in stating that you are the chairman of the committee on stock list?

Mr. ALTSCHUL. Yes.

Mr. MARRINAN. Will you please state to the committee as briefly as may be consistent with an understanding of the situation, just what are the duties of the committee on stock list?

Mr. ALTSCHUL. The primary duty of the committee on stock list is to consider applications for the listing of securities on the New York

Stock Exchange. In connection with the discharge of this primary obligation they have gradually developed certain collateral functions which have to do with the examination of papers prepared in connection with listing applications, with the gradual development of requirements looking to the obtaining of adequate and of constantly more adequate information for the benefit of the investor. And beyond that they have the general supervision of technical questions, such as the character of engraving work on stock certificates and matters with which I am sure this committee is not concerned.

For the convenience of the committee I have prepared an organization chart of the committee, in case you wish it, and also a short résumé of the flow of business through the office of the committee. It may save your time if I will submit those documents for your inspection, or in evidence.

Mr. MARRINAN. May I request that these documents be accepted for possible inclusion in the record, subject to their examination by some one in behalf of the committee before they are finally incorporated into the record.

Mr. ALTSCHUL. They are limited purely to a technical disclosure of the operations of the committee.

(Organization chart of the stock list committee of the New York Stock Exchange and a résumé of the flow of business through the office of the committee on stock list were presented to the committee by Mr. Altschul:)

DESCRIPTION OF THE FLOW OF BUSINESS THROUGH THE OFFICE OF THE COMMITTEE ON STOCK LIST

I. LISTING APPLICATIONS

Preliminary requests for listing are referred to the chief examiner, who, upon receipt of sufficient papers, delegates the scrutiny of the application to one of the examiners. The examiner consults with the company and assists in the preparation of the printed draft application. He examines the papers, to see that all the papers required by the committee are in order. Should any paper required under the established requirements of the committee be missing, or should there be any unusual features in the charter, by-laws, trust indenture, deposit agreement, opinion of counsel, etc., reports the fact to the chief examiner. The financial statements are submitted to another examiner, who specializes on examinations of this character. Should any point appear to require expert opinion, it is referred to either counsel for the exchange or the consulting accountants for the exchange. The chief examiner then prepares a comment on the salient features of the application, which is sent out to the committee with a copy of the pending application prior to the meeting at which it is to be considered. The committee may call upon representatives of the company to appear before it at its meeting, to discuss any special features. Should the application be passed, it is either recommended to the governing committee for action or adopted by the committee on stock list itself, depending upon the powers granted to the committee under the constitution.

II. ANNUAL AND INTERIM REPORTS OF LISTED COMPANIES

The financial reports section of the office keeps a running file of dates of financial reports of listed companies when due, and checks with the companies when there is a delay. When the reports come in, they are scrutinized by this section, and if any unusual features or accounting policies are reflected in the reports, the matter is taken up with the executive assistant, and then with the company.

III. GENERAL CORRESPONDENCE

Letters from the general public with respect to affairs of listed companies which concern the committee on stock list are referred from different departments of the exchange direct to the executive assistant. Depending upon the nature of the correspondence, it is either handled direct or referred to the committee for consideration, and then answered by the executive assistant.

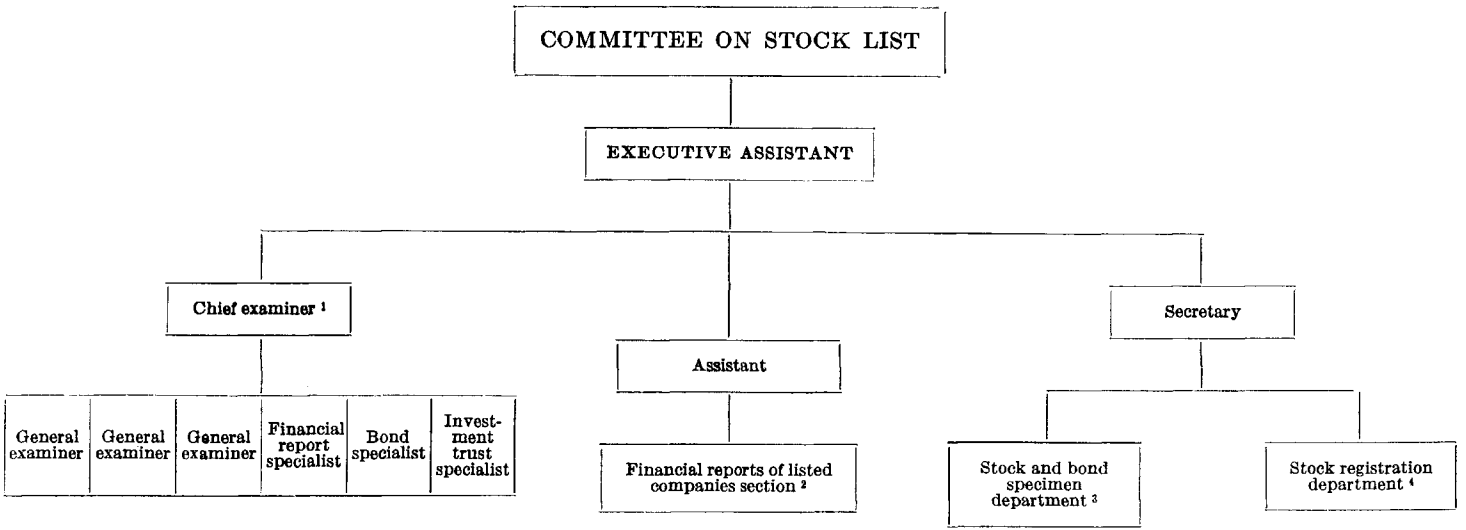
IV. REGISTRATION DEPARTMENT

All notices from transfer agents and requests from registrars for authority to register additional amounts of listed stocks are directed to the secretary of the committee on stock list, who, in turn, refers them to the registration department, where the records are kept. Authority for additional registration is granted by letter prepared by this department and then sent to the secretary for approval and release.

V. SPECIMENS OF SECURITIES

In connection with the listing of securities, it is required that specimens of the actual certificates be submitted by approved bank note companies to the office of the committee. The bank note and specimen department examines these securities to see whether or not they conform to the standards of the committee with respect to workmanship, character of engraving, and detailed regulations as to language required by the committee. In case of any departure from the general uniform practice, the specimen department takes the matter up with the secretary and the executive assistant. In certain cases where important questions of law or stock exchange procedure are concerned, the executive assistant refers the matter to counsel for the exchange for guidance.

The above summary of the flow of business through the office of the committee on stock list is merely an outline of the general procedure and does not give any indication of the large part of the time of the office, particularly of the executive assistant, which is devoted to conferences with corporate officials, accountants, and lawyers in general and specific endeavor to obtain more frequent and more informative corporate reports from listed companies.



[1] Consult applicants for listing and report on pending applications.
[2] Checks annual and interim reports to obtain conformity with committee's policies with respect to accounting methods, etc.
[3] Examine workmanship of bond and stock specimens; i. e., text, engraving, etc.
[4] Keep constant check of authorized listed securities with transfer agents and registrars—to prevent overissuance.

Senator COUZENS. At that point may I ask if the fact that these securities are listed on the New York Stock Exchange gives any assurance to the investor of their intrinsic value?

Mr. ALTSCHUL. No, sir.

The CHAIRMAN. I think Mr. Whitney testified that there was no examination made at the time of the listing. That they only passed on the papers submitted and made no independent investigation of the matter.

Mr. ALTSCHUL. From the point of view of determining value, no, sir.

The CHAIRMAN. Yes.

Senator COUZENS. Does a security in the past have to have had any earning power before you list it?

Mr. ALTSCHUL. Yes, sir. May I qualify that by saying that we have to have evidence before us which leads us to believe that they have earning power. In this particular case we were misled. I am trying to answer your question, Senator.

Senator COUZENS. Yes, I understand; but a new undertaking which was just coming on the market and securities for which were being floated could not be listed on the exchange?

Mr. ALTSCHUL. In general only in cases where it represented a consolidation of other companies that had a record in the past where the consolidated record was satisfactory.

Senator COUZENS. So a new enterprise outside of a consolidation, a new manufacturing enterprise or merchandising enterprise could not have its securities sold on the market until it had created a record for itself?

Mr. ALTSCHUL. That is correct, sir. Of course you understand that from our point of view if an old enterprise which has been privately owned is transformed into a corporate enterprise, making it available for public listing, the record in private ownership would be considered as satisfactory, if the record was satisfactory in itself.

Senator COUZENS. Would you list a security that was offered to you where they had, say, for instance, a continuous record of three or four years of losing money?

Mr. ALTSCHUL. No, sir.

Senator COUZENS. You would not?

Mr. ALTSCHUL. No; that being the current record before us at the time of listing; no, sir.

Senator COUZENS. Yes; well, if that record was not before you, but it may have been a fact, would you have looked it up to see if it was a fact?

Mr. ALTSCHUL. Well, if we would have had the earning record, for example, showing that there was a period of loss for 10 years, and that then there was a period of 6 years of earnings afterwards, and the company seemed to have substantial earnings, we would have to consider the application on its merits.

Senator COUZENS. So as a matter of fact in the public mind it is a valuable asset to have it listed on the New York Stock Exchange?

Mr. ALTSCHUL. There is no question about that, sir.

Mr. MARRINAN. In order that there may be a complete understanding of Mr. Altschul's position in this picture, may I state the case, and then if I am in error, correct me. You serve as chairman

of the committee on stock list, virtually a subcommittee of the governing committee, is that not true?

Mr. ALTSCHUL. Quite right, sir.

Mr. MARRINAN. The committee on stock list has no broad authority to list or to remove; is that correct?

Mr. ALTSCHUL. We have limited authority, sir. There are certain instances in which we have authority to add to the list on our own motion. But in general and with respect to new applications of companies whose securities have not been listed on the exchange before, all we have the right to do is to recommend to the governing committee.

Mr. MARRINAN. And the governing committee, is it fair to say, is vested with the real authority in big situations?

Mr. ALTSCHUL. Yes.

Mr. MARRINAN. And that you do the technical examining work and make recommendations?

Mr. ALTSCHUL. And those recommendations in printed form are in the hands of the governing committee prior to action.

Mr. MARRINAN. Do you employ a force of technical examiners in that committee?

Mr. ALTSCHUL. Yes, sir; we do.

Mr. MARRINAN. What are the duties of that staff?

Mr. ALTSCHUL. We have a head examiner and a number of subordinate examiners, and their duties are to examine the papers that are submitted to us by applicant companies.

Mr. MARRINAN. Will you set forth briefly the mechanics of a listing operation, proceeding from your last statement?

Mr. ALTSCHUL. Well, that is incorporated in this, and if you care to make it a matter of record now I will just read you briefly.

Mr. MARRINAN. If you will, briefly.

Mr. ALTSCHUL. Preliminary requests for listing are referred to the chief examiner, who, upon receipt of sufficient papers, delegates the scrutiny of the application to one of the examiners. The examiner consults with the company and assists in the preparation of the printed draft application. He examines the papers, to see that all the papers required by the committee are in order. If this gets too long, I wish you would interrupt me. Should any paper required under the established requirements of the committee be missing, or should there be any unusual features in the charter, by-laws, trust indenture, deposit agreement, opinion of counsel, and so forth, reports the fact to the chief examiner. The financial statements are submitted to another examiner, who specializes on examinations of this character. Should any point appear to require expert opinion, it is referred to either counsel for the exchange or the consulting accountants for the exchange. The chief examiner then prepares a comment on the salient features of the application, which is sent out to the committee with a copy of the pending application prior to the meeting at which it is to be considered. The committee may call upon representatives of the company to appear before it at its meeting, to discuss any special features. And, as a matter of fact, I might say there that in the case of a new applicant it is customary to have an appearance.

Mr. MARRINAN. Mr. Altschul, will you please speak not quite so rapidly?

Mr. ALTSCHUL. I am so sorry.

Mr. MARRINAN. It makes it difficult for the reporter and also for the gentlemen of the press.

Mr. ALTSCHUL. I am so sorry.

The CHAIRMAN. And for the Senators to follow you.

Mr. ALTSCHUL. Should the application be passed——

Mr. MARRINAN. That statement is prepared as of what date? I mean it describes the situation as of to-day?

Mr. ALTSCHUL. As of to-day; yes.

Mr. MARRINAN. Did it describe the situation as of the date when this Kreuger & Toll application reached the exchange?

Mr. ALTSCHUL. Yes, sir.

Mr. MARRINAN. Substantially, I mean.

Mr. ALTSCHUL. Yes, sir.

Mr. MARRINAN. In the application for the listing of the issue of so-called 5 per cent secured debentures submitted to the exchange under date of August 6, 1929, by Kreuger & Toll Co. and Donald Durant, a director of the company, was this usual routine of examination pursued?

Mr. ALTSCHUL. Yes, sir.

Mr. MARRINAN. Is it true that a copy of the indenture or debenture agreement was submitted to the exchange in connection with the application?

Mr. ALTSCHUL. Yes, sir.

Mr. MARRINAN. I ask that a copy of the application of Kreuger & Toll Co. to list the 30-year 5 per cent secured sinking fund gold debentures be printed in the record at this point.

The CHAIRMAN. Without objection that may be done.

(The application of Kreuger & Toll Co. to list on the New York Stock Exchange is here printed in the record in full as follows:)

COMMITTEE ON STOCK LIST, NEW YORK STOCK EXCHANGE

Kreuger & Toll Co., (Aktiebolaget Kreuger & Toll), incorporated August 10, 1911, under the laws of the Kingdom of Sweden, 30-year 5 per cent secured sinking fund gold debentures, due March 1, 1959 (with or without warrants for the purchase of American certificates, representing the company's participating debentures, exercisable at any time on or prior to December 31, 1930, or the redemption date of the secured debenture to which any such warrant is attached, whichever is earlier).

Original listing:

Amount authorized under trust agreement	Unlimited.
Total amount outstanding under trust agreement	$50, 000, 000
Total listing applied for	50, 000, 000

Authorized by resolution of board of directors of March 5, 1929. No other authority required.

Capital securities

	Amount authorized	Authorized for issuance	Previously listed	Outstanding
5 per cent secured sinking fund gold debentures	Unlimited.	$50, 000, 000		$50, 000, 000
Participating debentures	Kr. 130, 000, 000 ($34, 840, 000)	[1] Kr. 97, 250, 000 ($26, 063, 000)	[2]	Kr. 81, 250, 000 ($21, 775, 000)
Ordinary shares, par value Kr. 100	Kr. 65, 000, 000 ($17, 420, 000)	Kr. 65, 000, 000 ($17, 420, 000)		Kr. 65, 000, 000 ($17, 420, 000)

[1] Kr. 16,000,000 ($4,288,000) authorized for issuance against exercise of warrants.
[2] 3,218,625 "American certificates" representing participating debentures listed.

NEW YORK, N. Y., *August 6, 1929.*

Referring to its previous application A–8204, dated October 4, 1928, Kreuger & Toll Co. (Aktiebolaget Kreuger & Toll) hereby makes application for the listing on the New York Stock Exchange of $50,000,000 principal amount of its 30-year 5 per cent secured sinking fund gold debentures, due March 1, 1959, included in numbers M–1 to M–70000 for $1,000 each and D–1 to D–100000 for $500 each, on official notice of issuance in exchange for listed and outstanding interim receipts.

AUTHORITY FOR AND PURPOSE OF ISSUE OF SECURED DEBENTURES

The issuance of the $50,000,000 principal amount of secured debentures to which this application relates is made by authority of a resolution of the board of directors, passed on March 5, 1929.

Proceeds of this issue and of Kr. 16,250,000 participating debentures simultaneously offered to existing holders of participating debentures and ordinary shares, have been or will be applied toward the acquisition from Swedish Match Co. and/or International Match Corporation of securities having an aggregate par value of approximately $78,000,000.

Kreuger & Toll Co. is the largest stockholder in Swedish Match Co. which with its subsidiaries (including International Match Corporation, more than 99 per cent of the oustanding common stock of which it owns) is the largest match manufacturing and distributing organization in the world and has at various times cooperated financially with that company and International Match Corporation. In obtaining government concessions for the right to manufacture and sell matches in various countries, large amounts of securities are frequently acquired by Swedish Match Co. and International Match Corporation in return for advances made to the governments from which concessions are obtained. These operations have in recent years become increasingly important and, as the business of Swedish Match Co. and International Match Corporation is essentially industrial in character, it has been deemed advisable in general to transfer to Kreuger & Toll Co. the handling of such securities.

DESCRIPTION OF SECURED DEBENTURES

The secured debentures are the direct obligations of the company and are issued pursuant to a certain debenture agreement, dated March 1, 1929 (hereinafter called the agreement) made between Aktiebolaget Kreuger & Toll (therein and herein called Kreuger & Toll Co., or the company), Lee, Higginson Trust Co., as trustee (therein and herein called the trustee), and Lee, Higginson & Co., as fiscal agent (therein and herein called the fiscal agent), under which agreement Skandinaviska Kreditaktiebolaget, of Stockholm, has been appointed, and is acting as, depositary for certain purposes hereinafter more fully set forth. The aggregate principal amount of secured debentures which may be issued thereunder is unlimited. This issue of secured debentures (hereinafter called the debentures) is for an aggregate principal amount of $50,000,000, is dated March 1, 1929, will mature March 1, 1959, and bears interest at the rate of 5 per cent per annum, payable semiannually March 1 and September 1. Principal and interest are payable in time of war as well as in time of peace, without regard for the nationality or residence of the holders, free of any present or future Swedish taxes on debentures held by others than residents of Sweden, in United States gold coin of the standard of weight and fineness existing March 1, 1929, at the offices of Lee, Higginson & Co., fiscal agent, in New York, Boston, or Chicago, or at the option of the holder in sterling at a fixed rate of £205 per $1,000 at the offices of Higginson & Co., London; or at the option of the holder in like United States gold coin or in the national currency of the place of presentation at the buying rate of exchange for banker's sight drafts for dollars on New York current at the date of presentation and surrender of debentures or coupons, as the case may be, at the office of any paying agent appointed in Stockholm, Sweden; Amsterdam, Holland; and Basle, Switzerland.

The definitive debentures are in coupon form in denominations of $1,000 and $500 and are interchangeable. Upon any exchange of debentures, the company, at its option, may require the payment of a sum sufficient to reimburse it for any stamp tax or other governmental charge, and for any other expense connected therewith, and also of a further sum, not exceeding $2 for each new debenture issued.

The agreement permits the issuance of additional debentures upon the foregoing terms and further provides for the issuance of additional series of debentures,

each series to be distinctly designated, and to be in such amounts with such maturity, rate of interest, redemption, conversion, and other provisions not inconsistent with the provisions of the agreement as the company shall determine at the time of the creation of any such series.

REDEMPTION AND SINKING FUND

The debentures are redeemable in whole or in part at any time at 105 per cent of principal amount and accrued interest, on 30 days' notice given by publication in daily newspapers printed in the English language published and of general circulation in the Borough of Manhattan, city and State of New York, and the cities of Boston, Mass., and Chicago, Ill. In case less than all of the outstanding debentures are called for redemption the serial numbers of those so called will be determined by lot by the trustee, and such serial numbers will be stated in the above-mentioned notice of redemption. The agreement provides for a sinking fund for the semiannual retirement on March 1 and September 1 in each year, beginning September 1, 1929, of debentures of this issue through the purchase at public or private sale of debentures at prices not to exceed the above redemption price and, if not so obtainable, by redemption by lot. The company has covenanted in the agreement that the amounts to be paid by it for the account of this sinking fund will be sufficient to retire the entire issue of debentures covered by this application by the date of their maturity, namely, March 1, 1959.

For further details of the sinking-fund provisions reference is made to Exhibit A hereto annexed.

SECURITY

These debentures are the direct obligation of the company. As security for the debentures covered by this application the company has delivered to the trustee and/or the depositary, and has transferred and pledged to the trustee the following securities:

	Par value or equivalent
Kingdom of the Serbs, Croats, and Slovenes 6¼ per cent dollar bonds, due 1958	$7, 000, 000
Republic of Latvia 6 per cent dollar bonds, due 1964	6, 000, 000
Republic of Poland 7 per cent dollar bonds, due 1945	5, 100, 000
Republic of Ecuador 8 per cent dollar bonds, due 1953	1, 973, 275
Mortgage Bank of Ecuador 7 per cent dollar bonds, due 1949 (guaranteed by the Republic of Ecuador)	1, 000, 000
Republic of Greece 8½ per cent bonds, due 1954, £979,902, equivlent to	4, 768, 693
Kingdom of Rumania 4 per cent bonds, due 1968, £380,690, equivlent to	1, 852, 628
Republic of France 3 per cent and 4 per cent rentes, 344,000,000 francs, equivalent to	13, 477, 576
Kingdom of Rumania 7 per cent dollar bonds, due 1959	2, 000, 000
Belgian National Railways Co. participating preferred stock (6 per cent dividend guaranteed by Belgian Government), 16,000,000 belgas, equivalent to	2, 224, 640
Prussian Mortgage Bank 8 per cent bonds, due 1959, 12,000,000 reichsmarks, equivalent to	2, 858, 400
Hungarian land reform mortgage 5½ per cent dollar bonds, due 1979	12, 000, 000
Total par value	60, 255, 212

As more particularly set forth in the agreement the total par value of such securities is equivalent to not less than 120 per cent of the $50,000,000 par value debentures now to be issued, and the annual income from such securities (at rates of interest and guaranteed dividends currently payable thereon) is equivalent to not less than 120 per cent of the $2,500,000 annual requirement for interest on the secured debentures.

Debentures will at all times be secured by deposit with the trustee and/or depositary of cash or securities of the following character:

(*a*) Bonds or notes issued or guaranteed by any sovereign state, or political division thereof including any municipality, having authority to issue or guarantee bonds or notes and having a population in excess of 300,000.

(*b*) Bonds or notes issued or guaranteed by any mortgage banking institution or society (in which the company may but need not have an interest) and secured

by mortgage on agricultural or city property or entitled by special law to priority on such property.

(c) Shares in railroads or other companies a minimum dividend on which is guaranteed by any sovereign state.

COVENANTS AND FUTURE ISSUES

The company has agreed, as more fully described in the agreement, that in the event the ratio of par value (as defined in the agreement) of pledged securities to principal amount of outstanding debentures and/or the ratio of annual income from pledged securities to the annual requirement for interest on outstanding debentures, are at any time less than 120 per cent, it will deposit additional securities of the required character in order to restore said 120 per cent ratio, but the company is not required to make any such deposit except out of securities then owned or thereafter to be acquired by it or by a subsidiary. So long as no default is made in the payment of interest and/or sinking fund on the debentures, however, failure of the company to maintain the foregoing ratios shall not in itself constitute default under the agreement.

The agreement permits the issuance of additional debentures, in unlimited amount, of this series or of one or more additional series, provided that upon such issuance such ratios obtain. The agreement permits the withdrawal of pledged securities provided that such withdrawal does not impair the above ratios, and permits the substitution of securities of the required character for securities pledged provided the above ratios (or the ratios existing prior to such substitution if, prior to such substitution, the ratios were less than 120 per cent) are not impaired. These provisions are, however, subject to the condition that any part of the pledged securities may be withdrawn upon substitution of cash in an amount equivalent to that proportion of the principal amount of outstanding debentures which the par value of securities withdrawn bears to the total par value of securities pledged at the time of such withdrawal.

The company has convenanted in the agreement that no consolidation or merger shall be on such terms as to impair the lien or security of the agreement, and that any corporation formed by any such consolidation or merger shall, as a part of the consolidation or merger, expressly assume the due and punctual payment of the principal of, and premium, if any, and interest on, all secured debentures, and shall further assume the observance of all covenants and conditions of this agreement. The company has also covenanted that as a condition of any sale of its property as an entity or substantially as an entity the corporation to which the property shall be sold shall, as a part of the purchase price, assume all such payments and the observance and performance of all such covenants and conditions.

So long as no default exists under the agreement and so long as the required ratio of principal and of income above mentioned remains unimpaired, the company is entitled to receive all dividends and interest on any property deposited as security for the debentures and shall likewise be entitled to any rights or conversion privileges until such default accrues, except that the company is not entitled to any dividends payable in the course of the dissolution, liquidation or winding up of any corporation whose securities form a part of such property nor any stock dividends thereon.

PURCHASE WARRANTS FOR AMERICAN CERTIFICATES REPRESENTING PARTICIPATING DEBENTURES

Each debenture of this issue carries a nondetachable warrant for the purchase at any time on or prior to December 31, 1930, or the redemption date of the secured debenture to which it is attached, which ever is earlier, of 16 or 8 American certificates (according as the debenture is of the denomination of $1,000 or $500) representing participating debentures of the company upon presentation of the secured debenture with warrant attached at an office of the fiscal agent and upon payment of $45 per American certificate. These warrants are issued and are exercisable pursuant to a warrant agreement dated March 1, 1929, made between Aktiebolaget Kreuger & Toll; Lee, Higginson & Co., as warrant agent; and Lee, Higginson Trust Co., and all holders of warrants issued and to be issued thereunder. This warrant agreement contains appropriate provisions for a decrease in the warrant price per American certificate payable by the holders of the warrants in case the company shall issue any participating debentures over and above the Kr. 97,250,000 par value thereof now outstanding or reserved for issuance under the warrants for less than $45 per Kr. 20 par value of such par-

ticipating debentures. Unexercised warrants will be void after December 31, 1930, or the redemption date of the debenture to which they are attached, whichever is earlier. The company has authorized and reserved Kr. 16,000,000 participating debentures to be issued and deposited under the deposit agreement hereinafter referred to against the issuance of the corresponding amount of American certificates as warrants are exercised. (See the company's previous application A–8204, dated October 4, 1928.)

DESCRIPTION OF AMERICAN CERTIFICATES AND PARTICIPATING DEBENTURES

American certificates representing participating debentures are issued by Lee, Higginson Trust Co. of Boston, as depositary, under a deposit agreement dated September 1, 1928, in the proportion of one American certificate for each Kr. 20 par value of participating debentures deposited. For a further description of the American certificates and the deposit agreement reference is made to the company's previous application A–8204 covering the issue of the American certificates.

FISCAL AGENT, DEPOSITARY AND PAYING AGENTS

Lee, Higginson & Co. has been appointed under the agreement to act as fiscal agent of the company for the paying of principal and interest and sinking fund and to facilitate generally the operation of the agreement with regard to sinking fund, redemption, and similar matters.

Skandinaviska Kreditaktiebolaget, a banking corporation organized under the laws of the Kingdom of Sweden with one of its principal offices in Stockholm, is the depositary referred to in this application. The agreement provides that any property deposited with the depositary as security for the debentures shall be deemed to be held by the trustee for the purposes of the issue.

The agreement provides that the company may appoint paying agents in Stockholm, Sweden; Amsterdam, Holland; or Basle, Switzerland, upon the written consent and approval of Lee, Higginson & Co., the fiscal agent. The office of each such paying agent is designated under the agreement as an agency of the company where debentures and coupons may be presented for payment and where notices, presentations, and demands in respect to debentures and coupons may be served.

DEFAULTS

The agreement provides in Article X thereof that in case:

(1) Default shall be made in the payment of any instalment of interest on any debenture when and as such installment of interest becomes due and payable and such default shall continue for 60 days.

(2) Default shall be made in the payment of any of the amounts payable by the company for account of the sinking fund when and as any such amount shall become due and payable and such default shall continue for 60 days.

(3) Default shall be made in the payment of the principal and/or premium of any debenture when the same shall become due and payable either upon maturity or by call for redemption or by declaration on default under the agreement or otherwise.

(4) Default shall be made in the observance or performance of any other covenants of the company contained in the debentures and such default shall continue for 60 days after written notice by the trustee, which may give such notice in its discretion and which shall give such notice on the written request of the holders of 25 per cent in principal amount of the debentures at the time outstanding.

(5) The company shall be adjudicated bankrupt or become insolvent or a receiver shall be appointed of the property of the company and shall not be discharged within 60 days after appointment.

(6) The company shall file a voluntary petition in bankruptcy or shall make a general assignment for the benefit of creditors or shall take any action for or any order or direction or vote shall be made or had for its dissolution, liquidation or winding up.

Then and in every such case the trustee upon notice to the company may in its discretion or upon request in writing signed by the holders of 25 per cent in principal amount of the debentures then outstanding shall declare the principal of all the debentures, if not already due, to be forthwith due and payable and upon any such declaration the secured debentures shall become due and payable immediately. The foregoing provision, however, is subject to the condition that if at any time after the principal of the debentures shall be so declared due

and payable and before any sale of the property deposited as security therefor shall have been made, all arrears of interest upon all the debentures with interest on overdue installments of interest at the rate of 6 per cent per annum, together with reasonable charges, expenses, liabilities and advances under this agreement of the trustee, its agents and attorneys and all other sums which might have become due and payable by the company hereunder, other than the principal of any of the debentures which shall not have matured by their terms, shall either be paid by the company or collected out of the income, issued and profits of the deposited property and all other dividends under the debentures or any of them or under the agreement shall have been made good to the satisfaction of the trustee—

Then and in that case the holders of a majority in principal amount of the debentures then outstanding by written notice to the company and to the trustee may waive the default and its consequences; but no waiver shall extend to or change any subsequent default or impair any right consequent thereon.

The agreement further provides that if one or more of the foregoing events of default shall happen the trustee may, subject to the terms of the agreement, sell the deposited property or may proceed to protect and enforce its rights and the rights of the holders of debentures by a suit or suits in equity or at law.

HISTORY AND BUSINESS

Kreuger & Toll Co. (Aktiebolaget Kreuger & Toll), incorporated August 10, 1911, under the laws of the Kingdom of Sweden is an organizing, managing, and financing company. Under its charter it may, among other things, acquire and hold securities of any kind (but is prohibited from trading in securities.).

For a further and more detailed outline of the history and business of the company and of the companies, stocks of which are held by the company, reference is made to the previous application of the company A–8204, dated October 4, 1928. Kreuger & Toll Co. controls, through stock ownership, Swedish American Investment Corporation and N. V. Financieele Maatschappij Kreuger & Toll and also has substantial stock interests in Swedish Match Co. and Grangesberg Co., and balance sheets of these four companies, as of December 31, 1928, are appended (see Exhibit B).

CAPITALIZATION AND DIVIDENDS

Capitalization of Kreuger & Toll Co. consists of:

	Authorized	Outstanding
5 per cent secured sinking fund gold debentures, due Mar. 1, 1959 (additional debentures issuable under provisions of debenture agreement)	$50,000,000	$50,000,000
Participating debentures (reserved for exercise of warrants Kr. 16,000,000)	Kr. 130,000,000	Kr. 81,250,000
Share capital Kr. 100 par value:		
A shares, 1 vote per share	Kr. 10,000,000	Kr. 10,000,000
B shares, 1/1000 vote per share	Kr. 55,000,000	Kr. 55,000,000

The A and B shares are alike in all respects save as to voting power. On May 15, 1928, B shares to the amount of Kr. 15,000,000 were issued as a stock dividend, thus increasing the share capital to the present amount of Kr. 65,000,000. A shares of the company are listed on the Stockholm Stock Exchange, B shares on the London, Stockholm, Paris, Amsterdam, Zurich, Geneva, Basle, Berne, and Lausanne Stock Exchanges.

The participating debentures and the secured debentures covered by this application constitute the only funded debt of the company.

Following is a record of the capitalization of and dividends paid by the company since its organization:

	Share capital	Reserve fund (as of end of year)	Profit regulating fund	Dividends paid (on stock outstanding and participating in dividends for year)	Per cent paid
Year ended Dec. 31—	*Kroner*	*Kroner*	*Kroner*	*Kroner*	
1911 (6 months)	1,000,000			40,000	4
1912	1,000,000	40,000		120,000	12
1913	1,000,000	100,000		120,000	12
1914	2,000,000	500,000	50,000	240,000	12
1915	2,000,000	500,000	200,000	250,000	12½
1916	3,000,000	1,000,000	250,000	450,000	15
1917	6,000,000	4,000,000	450,000	1,200,000	20
1918	16,000,000	21,000,000	500,000	2,700,000	22½
1919	16,000,000	21,000,000	1,500,000	4,000,000	25
1920	20,000,000	29,000,000	3,000,000	5,000,000	25
1921	28,000,000	40,200,000	4,000,000	5,000,000	25
1922	28,000,000	40,200,000	4,000,000	7,000,000	25
1923	28,000,000	40,200,000	4,000,000	7,000,000	25
1924	28,000,000	40,200,000	4,000,000	7,000,000	25
1925	28,000,000	40,200,000	4,000,000	7,000,000	25
1926	28,000,000	40,200,000	4,000,000	7,000,000	25
1927	[1] 50,000,000	133,700,000	4,000,000	7,000,000	25
1928	65,000,000	133,700,000		16,250,000	25

[1] 220,000 shares issued in 1927, not entitled to dividends prior to Jan. 1, 1928.

FINANCIAL STATEMENTS

1. Comparative combined income and surplus account Kreuger & Toll Co. and principal subsidiaries for 1927 and 1928.
2. Comparative consolidated balance sheet Kreuger & Toll Co. and principal subsidiaries, December 31, 1927, and December 31, 1928.
3. Income account Kreuger & Toll Co. past six years.
4. Comparative surplus account Kreuger & Toll Co. for years ended December 31, 1927, and December 31, 1928.
5. Kreuger & Toll Co. balance sheet December 31, 1927.
6. Kreuger & Toll Co. balance sheet December 31, 1928.

Kreuger & Toll Co. and principal subsidiary companies—N. V. Financieele Maatschappij Kreuger & Toll and Swedish American Investment Corporation for the two years ended December 31, 1928

1. COMPARATIVE COMBINED INCOME AND SURPLUS ACCOUNT

	Year ended—	
	Dec. 31, 1927	Dec. 31, 1928
Income: Interest and dividends received and income from various sources (less intercompany items)	$12,702,613.29	$21,877,918.37
Deduct: General expenses	298,007.51	851,930.28
Net income available for interest	12,409,605.78	21,025,988.09
Deduct:		
Interest on participating debentures		4,355,000.00
United States income taxes	475,000.00	275,000.00
Total deductions	475,000.00	4,630,000.00
Balance to surplus	11,934,605.78	16,395,988.09
Add:		
Surplus at beginning of year	9,643,996.97	17,783,532.51
Profit regulating fund transferred		1,072,000.00
	21,578,602.75	35,251,520.60
Deduct:		
Cash dividends paid—		
Kreuger & Toll Co.	1,876,000.00	1,876,000.00
Swedish American Investment Corporation (less intercompany items)	1,275,680.25	1,010,659.00
Stock dividend Kreuger & Toll Co.		4,020,000.00
Sundry surplus charges net	25,498.26	
Writing off deferred charges	175,891.73	527,675.19
Intercompany dividend paid by subsidiary in 1927 and received by parent in 1928	442,000.00	[1] 442,000.00
Total deductions	3,795,070.24	6,992,334.19
Surplus at end of year	17,783,532.51	28,259,186.41

[1] Credit.

Kreuger & Toll Co. and principal subsidiary companies, N. V. Financieele Maatschappij Kreuger & Toll and Swedish American Investment Corporation, at dates as below

2. COMPARATIVE CONSOLIDATED BALANCE SHEET

	Dec. 31, 1927	Dec. 31, 1928
ASSETS		
Investments:		
Industrial stocks—		
Swedish Match Co	$28,871,020.92	$28,922,043.84
Grangesberg Co	17,553,800.00	17,553,800.00
Other industrial stocks	724,216.40	10,280,703.83
Real-estate stocks—		
Hufvudstaden Real Estate Co. (Sweden)	6,427,980.00	6,427,980.00
Real-estate interests in other European countries	12,800,000.00	13,591,943.22
Bank stocks	11,665,747.28	15,231,961.68
Notes secured by real-estate mortgages	3,474,000.00	3,474,000.00
Foreign government bonds		21,071,743.77
Other stocks and bonds	4,199,494.90	4,784,102.70
Accounts receivable	4,514,967.76	20,703,584.51
Cash and banking account	4,194,941.38	15,387,532.10
Special deposit for retirement of preferred stock of Swedish American Investment Corporation		94,007.50
Furniture and fixtures	.27	.27
Deferred charges	527,675.19	
	94,953,844.10	157,523,403.42
LIABILITIES		
Sundry creditors (including accrued interest on debentures)	8,467,670.60	17,211,308.55
United States income tax reserve	481,240.99	284,114.55
Participating debentures		17,420,000.00
Share capital (parent company)	13,400,000.00	17,420,000.00
Reserve funds	35,831,600.00	76,887,793.91
Profit regulating fund	1,072,000.00	
Participating preferred stock (Swedish American Investment Corporation)	17,917,800.00	41,000.00
Profit and loss surplus	17,783,532.51	28,259,186.41
	94,953,844.10	157,523,403.42

NOTE.—Balance sheet at Dec. 31, 1927, has been adjusted to give effect to acquisition of all outstanding common shares of above-named subsidiary companies.

Kreuger & Toll Co. (parent company)

3. INCOME ACCOUNT FOR YEARS ENDED DECEMBER 31

	Profit on sundry transactions [1]	Interest and dividends received	Total income	General expenses	Net profit	Dividends paid for year
1923	Kr. 1,982,579.95	Kr. 6,850,964.67	Kr. 8,833,544.62	Kr. 145,598.83	Kr. 8,687,945.79	Kr. 7,000,000.00
1924	7,293,465.00	4,876,820,02	12,170,285.02	412,846.50	11,757,438.52	7,000,000.00
1925	8,030,733.90	5,018,677.89	13,049,411.79	989,571.37	12,059,840.42	7,000,000.00
1926	9,883,269.75	5,650,874.83	15,534,144.58	641,452.53	14,892,692.05	7,000,000.00
1927	9,431,957.25	10,230,988.40	19,662,945.65	925,150.15	18,737,795.50	7,000,000.00
1928	9,719,962.33	13,146,877.50	22,866,839.83	3,012,970.14	19,853,869.69	16,250,000.00
	In dollars, at par of exchange (Krona equals $0.268)					
1923	$531,331.43	$1,836,058.53	$2,367,389.96	$39,020.49	$2,328,369.47	$1,876,000.00
1924	1,954,648.62	1,306,987.76	3,261,636.38	110,642.86	3,150,993.52	1,876,000.00
1925	2,152,236.69	1,345,005.67	3,497,242.36	265,205.12	3,232,037.24	1,876,000.00
1926	2,648,716.29	1,514,434.46	4,163,150.75	171,909.28	3,991,241.47	1,876,000.00
1927	2,527,764.54	2,741,904.89	5,269,669.43	247,940.24	5,021,729.19	1,876,000.00
1928	2,604,949.90	3,523,363.17	6,128,313.07	807,475.99	5,320,837.08	4,355,000.00

[1] Consists, principally, of profit from participation in financial syndicates or on real estate transactions.

Kreuger & Toll Co. (parent company)—Continued

4. COMPARATIVE SURPLUS ACCOUNT FOR YEARS ENDED DECEMBER 31

[Dollars at par of exchange, 1 kr. equals $0.268]

	1927		1928	
Net profit for year	Kr. 18,737,795.50	$5,021,729.19	Kr. 19,853,869.69	$5,320,837.07
Profit transferred from previous year	20,800,019.28	5,574,405.17	21,537,814.78	5,772,134.37
Transferred from profit regulating fund	4,000,000.00	1,072,000.00		
	43,537,814.78	11,668,134.36	41,391,684.47	11,092,971.44
Dividend paid	7,000,000.00	1,876,000.00	16,250,000.00	4,355,000.00
Transferred to capital account (distributed in form of bonus shares)	15,000,000.00	4,020,000.00		
Profit carried forward	21,537,814.78	5,772,134.36	25,141,684.47	6,737,971.44

5. Balance sheet for December 31, 1927

	Kroner	United States dollars
ASSETS		
Cash and banking account	11,728,955.71	$3,143,360.13
Bonds	3,792,513.60	1,016,393.64
Furniture, fittings, and fixtures	1.00	.27
Shares at cost:		
272,000 shares in Swedish American Investment Corporation	101,620,000.00	27,234,160.00
970 shares in N. V. Financieele Maatschappij Kreuger & Toll	1,455,000.00	389,940.00
320,000 shares in Svenska Tändsticks Aktiebolaget	61,377,690.00	16,449,220.92
155,000 shares in Trafikaktiebolaget Grängesberg-Oxelösund	43,000,000.00	11,524,000.00
30,000 shares in Skandinaviska Kreditaktiebolaget	6,000,000.00	1,608,000.00
4,000 shares in Stockholms Intecknings Garanti Aktiebolag	2,000,000.00	536,000.00
10,023 ordinary shares in Hammarsforsens Kraftaktiebolag	1,002,300.00	268,616.40
17,000 preferred shares in Hammarsforsens Kraftaktiebolag	1,700,000.00	455,600.00
	218,154,990.00	58,465,537.32
Sundry debtors	13,900,632.78	3,725,369.59
	247,577,093.09	66,350,660.95
LIABILITIES		
Share capital:		
Series A shares	10,000,000.00	2,680,000.00
Series B shares	40,000,000.00	10,720,000.00
	50,000,000.00	13,400,000.00
Reserve fund	133,700,000.00	35,831,600.00
Profit regulation fund	4,000,000.00	1,072,000.00
Sundry creditors	20,339,278.31	5,450,926.59
Profit and loss account	39,537,814.78	10,596,134.36
	247,577,093.09	66,350,660.95

6. Balance sheet for December 31, 1928

	Kroner	United States dollars
ASSETS		
Cash and banking account	35,109,342.91	$9,409,303.90
Bonds	93,265,591.67	24,995,178.57
Furniture, fittings, and fixtures	1.00	.27
Shares at cost:		
272,000 shares in Swedish American Investment Corporation	101,620,000.00	27,234,160.00
9,970 shares in 'N. V. Financieele Maatschappij Kreuger & Toll	14,955,000.00	4,007,940.00
320,000 shares in Svenska Tändsticks Aktiebolaget	61,377,690.00	16,449,220.92
155,000 shares of Trafikaktiebolaget Grängesberg-Oxelösund	43,000,000.00	11,524,000.00
30,000 shares in Skandinaviska Kreditaktiebolaget	6,000,000.00	1,608,000.00
6,000 shares of Stockholms Intecknings Garanti Aktiebolag	3,600,000.00	964,800.00
10,023 ordinary shares in Hammarsforsens Kraftaktiebolag	1,002,300.00	268,616.40
17,000 preferred shares in Hammarsforsens Kraftaktiebolag	1,700,000.00	455,600.00
	233,254,990.00	62,512,337.32
Sundry debtors	1,654,107.57	443,300.83
	363,284,033.15	97,360,120.89
LIABILITIES		
Share capital:		
Series A shares	10,000,000.00	2,680,000.00
Series B shares	55,000,000.00	14,740,000.00
	65,000,000.00	17,420,000.00
Participating debentures	65,000,000.00	17,420,000.00
Reserve fund	133,700,000.00	35,831,600.00
Sundry creditors	58,192,348.68	15,595,549.45
Profit and loss account	41,391,684.47	11,092,971.44
	363,284,033.15	97,360,120.89

At par of exchange 1 Kr.=$0.268.

AGREEMENTS

Subject to the company's previous application A–8204 covering the American certificates representing its participating debentures, Kreuger & Toll Co. agrees with the New York Stock Exchange as follows:

Not to dispose of an integral asset or its stock interest in any constituent, subsidiary, owned or controlled company, or allow any of said constituent, subsidiary, owned or controlled companies to dispose of an integral asset or stock interest in other companies unless for retirement and cancellation, without notice to the stock exchange.

To publish statement of earnings annually.

To publish once in each year and submit to the stockholders, at least 15 days in advance of the annual meeting of the company a statement of its financial condition and income account, and balance sheet of all important constituent, subsidiary, owned or controlled companies, similar to the policy of the company heretofore in effect.

To maintain, in accordance with the rules of the stock exchange, a transfer office or agency in the borough of Manhattan, city of New York, where all listed securities shall be directly transferable, and the principal of all listed securities with interest or dividends thereon shall be payable; also a registry office in the borough of Manhattan, city of New York, other than its transfer office or agency in said city, where all listed securities shall be registered.

To notify the stock exchange 30 days in advance of the effective date of any change in the authorized amounts of listed securities.

Not to make any change in listed securities, of a transfer agency or of a registrar of its stock, or of a trustee of its bonds or other securities, without the approval of the committee on stock list, and not to select as a trustee an officer or director of the company.

To notify the stock exchange in the event of the issuance or creation in any form or manner of any rights to subscribe to, or to be allotted, its securities, or of any other rights or benefits pertaining to ownership in its securities, so as to afford the holders of its securities a proper period within which to record their interests, and that all rights to subscribe or to receive allotments and all other such rights and benefits shall be transferable; and shall be transferable, payable and deliverable in the borough of Manhattan, city of New York.

To make application to the stock exchange for the listing of additional amounts of listed securities prior to the issuance thereof.

To publish promptly to holders of bonds and stocks any action in respect to interest on bonds, dividends on shares, or allotment of rights for subscription to securities, notices thereof to be sent to the stock exchange, and to give to the stock exchange at least 10 days' notice in advance of the closing of the transfer books or extensions, or the taking of a record of holders for any purpose.

To notify the stock exchange if deposited collateral is changed or removed, excepting for incidental items which will be reported annually.

To have on hand at all times a sufficient supply of certificates to meet the demands for transfer.

GENERAL

The fiscal year of the company ends December 31.

The annual meeting of the shareholders is held in Stockholm before the end of May in each year.

The articles of association provide that the board of directors shall consist of at least 3 and not more than 15 members. The present directors are Sven Lübeck, chairman; C. Juhlin Dannfelt, vice chairman; Ernst Kreuger; Ivar Kreuger; Paul Toll; Oscar Rydbeck; Donald Durant; Erik Sjöström, vice president; Nils Ahlström, president.

The principal office of Kreuger & Toll Co. is located in Stockholm, Sweden.

The principal and interest of the debentures covered by this application are payable at the offices of Lee, Higginson & Co., in New York, Boston or Chicago, or at the offices of Higginson & Co., London, or at the offices of any paying agent appointed in Stockholm, Sweden; Amsterdam, Holland; and Basle, Switzerland.

All conversions of kronor to dollars used herein have been made at par of exchange (1 kronor equals $0.268).

Warrants for the purchase of American certificates representing the company's participating debentures are exercisable at the offices of Lee, Higginson & Co. in New York, Boston, and Chicago, or at the offices of any subwarrant agents, not later than December 31, 1930, or the redemption dates of the respective debentures which they accompany, whichever is earlier.

KREUGER & TOLL CO.,
By DONALD DURANT, *Director.*

This committee recommends that the above-mentioned $50,000,000 30-year 5 per cent secured sinking fund gold debentures, due March 1, 1959, included in Nos. M–1 to M–70000, for $1,000 each, and D–1 to D–100000, for $500 each (and coupon debentures of one denomination may be exchanged for coupon debentures of another denomination), be admitted to the list on official notice of issuance in exchange for outstanding interim receipts, in accordance with the terms of this application.

ROBERT GIBSON, *Chairman.*

Adopted by the governing committee August 14, 1929.

ASHBEL GREEN, *Secretary.*

EXHIBITS

These exhibits constitute an essential part of the application. The statements of fact contained in them are made on the authority of the applicant corporation in the same manner as those in the body of the application.

EXHIBIT A

The following provisions are quoted from the debenture agreement between Aktiebolaget Kreuger & Toll (Kreuger & Toll Co.), Lee, Higginson Trust Co., as trustee; and Lee, Higginson & Co., as fiscal agent, dated March 1, 1929, and referred to in the body of the application:

ARTICLE IV.—*Sinking fund*

SECTION 1. As and for a sinking fund for the retirement of the first series debentures, the company covenants and agrees that it will from time to time pay to the fiscal agent, at the office of the fiscal agent in the Borough of Manhattan, city and State of New York, the amounts in this Article IV hereinafter stated, that is to say:

(1) Semiannually on March 1 and September 1 in each year, beginning on September 1, 1929, an amount equivalent to not less than three-quarters of 1 per cent of the principal amount of first series debentures originally issued, whether or not then outstanding, unless retired in accordance with the provi-

sions of Article V of this agreement, plus an amount equal to six months' interest at the rate of 5 per cent per annum on (1) the principal amount of all first series debentures theretofore retired by operation of the sinking fund and (2) the unexpended cash balance, if any, then in the sinking fund; said payments to be made either in cash or in first series debentures taken at their principal amount.

(2) From time to time, upon the written request of the fiscal agent as hereinafter provided, the amount of accrued interest and the amount of any premium paid by the fiscal agent on any first series debentures purchased by the fiscal agent for the sinking fund as hereinafter provided.

(3) From time to time, upon the written request of the fiscal agent as hereinafter provided, the amount required for the payment of interest and premium on any first series debentures called for redemption in accordance with the provisions of this Article IV of this agreement.

(4) From time to time, upon the written request of the fiscal agent as hereinafter provided, the amount, if any, required under the provisions of section 5 of this Article IV as and for a sinking fund in respect of first series debentures in addition to the $50,000,000 principal amount thereof initially issued.

The company covenants and agrees that the amounts to be paid by it for the account of the sinking fund as in this Article IV provided will be sufficient to retire the entire issue of $50,000,000 principal amount of first series debentures initially issued by the date of the maturity of the first series debentures, namely, March 1, 1959.

* * * * * * *

SEC. 5. If at any time or from time to time the company shall issue and the trustee shall authenticate and deliver any first series debentures in addition to the $50,000,000 principal amount initially issued, the payments to be made by the company to the fiscal agent under the provisions of section 1 of this Article IV shall be augmented by an amount to be determined by the fiscal agent and in its opinion sufficient to retire on or before the maturity of such first series debentures the entire additional amount so issued by the company.

SEC. 6. If at any time or from time to time the company shall issue and the trustee shall authenticate and deliver under any agreement supplemental to this agreement any secured debentures of a series other than the first series, the company covenants that such supplemental agreement shall contain provisions requiring the company to pay to the fiscal agent as and for a sinking fund amounts to be determined by the fiscal agent and in its opinion sufficient to retire on or before maturity the entire principal amount of the series issued or to be issued under such supplemental agreement.

EXHIBIT B

Balance sheets as of December 31, 1928, of the following companies are presented herewith:

1. N. V. Financieele Maatschappij Kreuger & Toll.
2. Swedish American Investment Corporation.
3. Swedish Match Co.
4. Grangesberg Co.

1. N. V. Financieele Maatschappij Kreuger & Toll, balance sheet for December 31, 1928

	Florins	United States dollars (at par of exchange) 1 Fl.=$0.402
ASSETS		
Cash and banking account	Fl. 12,798,730.45	$5,145,080.64
Shares	90,724,340.50	36,471,184.88
Syndicate participations	20,314,713.47	8,166,514.82
Accounts receivable	32,750,668.82	13,165,768.86
	156,588,453.24	62,948,558.20
LIABILITIES		
Share capital	10,000,000.00	4,020,000.00
Special reserve fund	104,509,835.60	42,012,953.91
Sundry creditors	9,130,385.32	3,670,414.90
Profit remaining from 1927	8,835,618.72	3,551,918.72
Profit for 1928	24,112,613.60	9,693,270.67
	156,588,453.24	62,948,558.20

2. Swedish American Investment Corporation, balance sheet for December 31, 1928

ASSETS			
Shares in industrial companies			$13,374,819.66
Shares in real estate companies			6,427,980.00
Shares in banks			9,128,027.11
Mortgage loans			3,474,000.00
			32,404,826.77
Bank and cash account			1,075,657.56
Accounts receivable			987,312.21
			34,467,796.54
LIABILITIES			
Accounts payable			4,656.41
Reserve for Federal income taxes			284,114.55
Share capital:			
Preferred stock		$41,000.00	
Common stock		30,217,000.00	
			30,258,000.00
Surplus:			
Balance Jan. 1, 1928		3,635,479.43	
Net profit for the year ended Dec. 31, 1928	$3,149,880.34		
Less: Deferred charges written off	527,675.19		
		2,622,205.15	
		6,257,684.58	
Deduct:			
Preferred dividends	874,159.00		
Common dividends	1,462,500.00		
		2,336,659.00	
Balance Dec. 31, 1928			3,921,025.58
			34,467,796.54

3. Swedish Match Co. balance sheet as of December 31, 1928

	In kronor	In dollars
ASSETS		
Cash in hand and at banks	Kr. 30,959,697.22	$8,297,198.85
Bonds	99,666,992.03	26,710,753.86
Sundry debtors	55,441,202.34	14,858,242.23
Stock of matches	2,499,678.58	669,913.86
Foreign investments	117,851,211.96	31,584,124.82
Shares:		
5,994 ordinary shares in Jönköpings & Vulcans Tändsticksfabricks Aktiebolag	34,964,976.10	9,370,613.59
2 preference shares in Jönköpings & Vulcans Tändsticksfabriks Aktiebolag	2,000.00	536.00
152,496 ordinary shares in Aktiebolaget Förenade Svenska Tändsticksfabriker	35,075,000.00	9,400,100.00
27,500 preference shares in Aktiebolaget Förenade Svenska Tändsticksfabriker	6,325,000.00	1,695,100.00
1,000,000 ordinary shares in International Match Corporation	163,436,222.04	43,800,907.50
1,856,250 ordinary shares in British Match Corporation (Ltd.)	33,853,232.81	9,072,666.39
199,998 in Trummer & Co., Successors (Ltd.)	3,600,000.00	964,800.00
50,000 in Compañia Chilena de Fósforos	5,750,000.00	1,541,000.00
752 in Fábrica Nacional de Fósforos, Comp. Anônima	569,237.51	152,555.65
998 in Swedish-Chinese Export & Import Co. A. B	100,000.00	26,800.00
845 in Katrinefors Aktiebolag	5,915,000.00	1,585,220.00
18,496 in Aktiebolaget Öfverums Bruk	4,600,000.00	1,232,800.00
5,996 in Aktiebolaget Skogsegendomar	600,000.00	160,800.00
1,346 in Alby Nya Kloratfabriks Aktiebolag	1,350,000.00	361,800.00
1,996 in Elektrolytiska Aktiebolaget Trollhättan	200,000.00	53,600.00
3,996 in Aktiebolaget Siefvert & Fornander	400,000.00	107,200.00
96 in Aktiebolaget Löwenadler & Co	50,000.00	13,400.00
1,196 in Svenska Tändsticksbolagets Försäljningsaktiebolag	120,000.00	32,160.00
3,996 in Fastighetsaktiebolaget Västra Trädgardsgatan 15	400,000.00	107,200.00
	297,310,668.46	79,679,259.13
Office furniture	1.00	.27
	603,729,451.59	161,799,493.02
LIABILITIES		
Share capital:		
A shares	90,000,000.00	24,120,000.00
B shares	180,000,000.00	48,240,000.00
	270,000,000.00	72,360,000.00
Reserve fund	200,000,000.00	53,600,000.00
Debenture loan	25,683,000.00	6,883,044.00
Sundry creditors	52,400,988.18	14,043,464.83
Profit and loss account	55,645,463.41	14,912,984.19
	603,729,451.59	161,799,493.02

4. Grangesberg Co. balance sheet as of December 31, 1928

	In kronor	In dollars at par of exchange (1 krone=$0.268)
ASSETS		
Investments in mining and affiliated companies	132,004,436.00	35,377,188.85
Bonds	40,000.00	10,720.00
Steam and motor ships	32,607,748.84	8,738,876.69
Railway and rolling stock	11,001,958.39	2,948,524.85
Mines and mining rights acquired from Stora Kopparbergs Bergslags A. B	20,000,000.00	5,360,000.00
Plants at Grangesberg	5,236,997.90	1,403,515.43
Mines at Strassa	8,895,600.00	2,384,020.80
Buildings and plants at Strassa	2,836,077.00	760,068.63
Sundry inventories and supplies	2,572,861.78	689,526.96
Ore on hand	4,323,920.48	1,158,810.69
Due from affiliated companies	73,175,226.17	19,610,960.61
Building loans	1,628,636.26	436,474.52
Sundry rights in connection with the agreement with the Government of 1927	13,227,820.56	3,545,055.91
Due from banks	1,432,080.04	383,797.45
Accounts receivable for ore	3,107,198.12	832,729.10
Miscellaneous receivables	5,481,264.70	1,468,978.94
Cash	23,724.57	6,358.18
	317,595,550.81	85,115,607.61
LIABILITIES		
Share capital	119,000,000.00	31,892,000.00
Reserve fund	46,000,000.00	12,328,000.00
Pension fund	418,192.48	112,075.58
Ship insurance fund	2,201,124.20	589,901.29
Fire insurance fund reserve	263,429.74	70,599.19
Reserve for taxes, expenses, and contingencies	3,500,000.00	938,000.00
Reserve for renewals—railway	396,465.00	106,252.62
Bonds	53,154,477.01	14,245,399.84
Due to affiliated companies	16,288,132.50	4,365,219.51
Due Stora Kopparbergs Bergslags A. B	20,000,000.00	5,360,000.00
Due to the Government according to the agreement of 1927	13,227,820.56	3,545,055.91
Due to banks	27,644,549.17	7,408,739.18
Reserve for repayment of royalty according to the agreement with the Government of 1927	956,856.62	256,437.57
Miscellaneous liabilities	2,013,311.84	539,567.55
Unpaid coupons	159,283.17	42,714.69
Surplus	12,371,808.52	3,315,644.68
	317,595,550.81	85,115,607.61

Mr. MARRINAN. Was there any special consideration given to the wide latitude permitted Kreuger & Toll Co. to substitute or change pledged collateral in the terms of this indenture?

Mr. ALTSCHUL. Yes, sir.

Mr. MARRINAN. What was the nature of the consideration given to that?

Mr. ALTSCHUL. Do you prefer to have me rely on my memory for that? I have put down and have before me here a few notes on this subject which may make the matter clearer.

Mr. MARRINAN. Talk from your notes, Mr. Altschul.

Mr. ALTSCHUL. In connection with the listing of the so-called secured sinking fund debentures the question has come up as to the degree of scrutiny to which the indenture was subjected by the committee, and in particular the degree of scrutiny to which the so-called substitution clauses were subjected. These clauses were considered by the committee. Their intent appeared to us to be that at all times outstanding debentures should be covered by securities described in the indenture in detail and referred to as eligible securities, to the extent of 120 per cent in par value of the par value of outstanding debentures and by securities producing currently an income equivalent to 120 per cent of the interest charge on the outstanding debentures.

The reason why par value was used as the basis for the determination of the amounts of eligible securities to be lodged with the trustee was explained to the committee as having its origin in the unusual circumstances of Ivar Kreuger's business. We were told that Kreuger was in the habit of making great loans, in many instances to governments. These were evidenced by issues of government securities, where frequently the issue was supported by the specific pledge of the match monopolies for which he was negotiating, and where the issue in its entirety was held by Kreuger. As a result it was pointed out that there was often no market price for these issues on the basis of which a calculation of the value of the collateral could reasonably be based.

It was pointed out that as the securities in question had to be currently paying income to the extent of 120 per cent of the interest carried by the outstanding debentures, the provision as to par value possibly lost some of its significance. Beyond this, there was the general feeling at that time—and one now has to go back to that time—that the credit of Kreuger & Toll stood so high that its debentures might well have been eligible for listing on the stock exchange without any collateral security whatever, and that, accordingly, in so far as collateral security was being offered, a certain degree of flexibility should be allowed to the borrowing corporation in order that its alleged constructive effort of financing country after country should not be needlessly hampered.

The CHAIRMAN. May I ask you there: You heard the testimony yesterday in which it was stated that over $100,000,000 had disappeared to Kreuger?

Mr. ALTSCHUL. Yes.

The CHAIRMAN. The investigation so shows. I am wondering how he could spend $100,000,000 in the different stock exchanges of the world without you people being next to his habits.

Mr. ALTSCHUL. I can not answer that question, Senator. We had no knowledge of what he was doing.

The only thing I would like to add in connection with this substitution provision, if I may, is that according to our custom the stock exchange gets an undertaking that any changes in collateral are to be promptly notified to us.

Mr. MARRINAN. That was to be my next line of inquiry. The listing agreement contains this language on the point of reporting changes in pledged collateral:

> To notify the stock exchange after deposited collateral is changed or removed except for incidental items, which will be reported annually.

Was this form of provision in this particular the standard form as of that date, August 6, 1929? I mean by standard form the customary or usual form, and not a special form employed for inclusion in this particular agreement.

Mr. ALTSCHUL. My recollection is that it was, but I will have to answer your question by asking Mr. Haskell.

Mr. MARRINAN. Mr. Haskell, won't you pull up close to Mr. Altschul so that he can refer without inconvenience.

Mr. ALTSCHUL. Thank you very much. Apparently there was no standard form for this kind of substitution provision. Occasionally there were issues listed where there was a substitution clause, and in issues where there was a substitution clause, a clause in its general

wording similar to this and like in intent was inserted to provide that the debtor corporation should advise the stock exchange of changes in its collateral.

The CHAIRMAN. But this indenture did not so provide for any notification of the stock exchange?

Mr. ALTSCHUL. We are talking now, sir, of the agreement between the borrowing company and the stock exchange. The borrowing company agreed to notify, and only after Kreuger's death did we find that they had constantly and regularly violated their agreement.

Mr. MARRINAN. I want to bring this up in orderly fashion. Am I correct in the information I have that under date of April 1, 1930, the language of this provision approved by your committee for use in applications to list was modified to read as follows:

To notify the exchange of the change or removal to a substantial extent of collateral deposited under any of its mortgage or trust indentures under which listed securities are outstanding.

Was such action taken by the exchange?

Mr. ALTSCHUL. Yes, sir.

Mr. MARRINAN. This is a matter of establishing an orderly record on this, and I may say here that I would like to have at an appropriate place included in the record copy of a letter which is the basis for these questions, written under signature of Mr. J. M. B. Hoxsey, executive assistant to the committee on stock list, and addressed to William A. Gray, who at that time was counsel to this committee. Substantially all the information is in here, except that it is not in such order as to be as understandable as I hope to make it by the series of questions that I am now asking.

I would like to have this letter placed in the record at this point.

Mr. ALTSCHUL. May I just look at one word in the letter, because I am not sure——

Mr. MARRINAN. Yes. Those pencil notes as to dates represent assurances given to me during my investigation in New York by your Mr. Haskell.

Mr. ALTSCHUL. Yes. Well, I was looking for the word "immediately," because that was one of the things that we caught.

(The letter from J. M. B. Hoxsey, executive assistant, committee on stock list, New York Stock Exchange, to Mr. William A. Gray, dated May 31, 1932, is here printed in the record in full as follows:)

NEW YORK STOCK EXCHANGE,
May, 31, 1932.

Mr. WILLIAM A. GRAY,
New York City.

DEAR SIR: In accordance with the telephone request of Mr. Meehan, I hereby advise you that the text of the standard form of agreement to be entered into by applicants for listing securities immediately prior to the recent change was as follows:

"To notify the stock exchange of the change or removal to a substantial extent, of collateral deposited under any of its mortgage or trust indentures under which listed securities are outstanding."

The text of a similar agreement now in force and embodying the recent change is as follows:

"To notify the stock exchange immediately of any change or removal of collateral deposited under any of its mortgage or trust indentures under which listed securities are outstanding."

This agreement has been modified from time to time in the past, and the text of the corresponding agreement entered into by Kreuger & Toll was as follows:

"To notify the stock exchange if deposited collateral is changed or removed, excepting for incidental items which will be reported annually."

I inclose with this copy of cable dated March 21, 1932, signed Kreutoll. The stamp upon this cable shows that it was delivered to this office at 1.03 p. m. on March 21.

A question arose in our minds as to the accuracy of the exceedingly small holdings of German Government international 5½ per cent 1965 bonds, and of the fact that they appear to be payable in kroner.

We asked the cable company to confirm the latter part of the telegram, and inclose copy of official advice with such confirmation, which was received on March 22, 1932.

The information was given to the press upon the same day. We have received no advice from the company of any further changes.

We note, however, that in an application dated May 2, 1932, for listing certificates of deposit for Kreuger & Toll 5 per cent sinking fund gold debentures, there is listed in addition to the securities named in the attached cablegram, 150,000 French francs in cash, which sum was not mentioned in the cable.

Yours very truly,

J. M. B. HOXSEY,
Executive Assistant.

Mr. MARRINAN. Do you regard that second, that 1930 modification of this provision to report, a strengthening of the regulation, or was it just merely an amendment without much significance?

Mr. ALTSCHUL. It was a strengthening of the regulation.

Mr. MARRINAN. In what way, Mr. Altschul?

Mr. ALTSCHUL. In that it provided for the immediate notification.

Mr. MARRINAN. No; we have not gotten that far.

Mr. ALTSCHUL. I beg your pardon. Which is the one that you are referring to?

Mr. MARRINAN. I am talking now about the April 1, 1930. I am trying to clear that situation up.

Mr. ALTSCHUL. Oh, yes. I think the April 1, 1930, as far as I read it now, was largely in the direction of clarification.

Mr. MARRINAN. Am I correct when I state that more recently—I am not advised, Mr. Haskell, as to the date, save that it followed the Kreuger disclosures—the language of this provision was further modified to read as follows:

To notify the stock exchange immediately of any change or removal of collateral deposited under any of its mortgage or trust indentures under which listed securities are outstanding.

That is correct?

Mr. ALTSCHUL. That is correct.

Mr. MARRINAN. The inclusion of the word "immediately" strengthens the provision as here modified, does it not?

Mr. ALTSCHUL. Yes, sir.

Mr. MARRINAN. Did the Kreuger & Toll experience have any influence upon the decision or action of your committee to approve this modification?

Mr. ALTSCHUL. It did so.

Mr. MARRINAN. Did the agreements, Mr. Altschul, entered into by Kreuger & Toll with the New York Stock Exchange as conditions precedent to the approval of listing place responsibility upon Kreuger & Toll Co. or upon the American trustee, Lee, Higginson Trust Co., or upon both to report substitution of collateral?

Mr. ALTSCHUL. It placed the responsibility on Kreuger & Toll, sir.

Mr. MARRINAN. Do you think it sound practice to depend upon a foreign company to make such reports, especially where there exists an American trustee?

Mr. ALTSCHUL. No. We have learned from experience, sir, that that should be corrected, and it is in the process of being corrected now. Do you care to have me explain in what manner?

Mr. MARRINAN. Yes; make the statement. You are anticipating some of my questions, but I will be very glad to have you proceed and make a complete statement.

Mr. ALTSCHUL. This is the first experience that we have ever had on this magnificent scale of violation of an agreement to notify the stock exchange as to a change in deposit, and naturally it gave us great concern, and we had to think about it a lot, and we are now at work on the preparation of an agreement, which requires a good deal of study and thought, which we would like to have entered into by trustees, a direct agreement between the trustee and the exchange that they will notify us of these changes. And since the Kreuger & Toll episode we have taken steps to satisfy ourselves that in the other rare cases where there are substitutions of collateral possible, that we have been notified and the public has been notified.

Mr. MARRINAN. Speak louder. I did not catch the last.

Mr. ALTSCHUL. Since the Kreuger & Toll episode we have taken up with trustees acting under deposit agreements the question of whether we have been advised of changes that have taken place heretofore, and in those rare instances where we find through inadvertence minor changes of which we had not been heretofore advised we secured such advice, and the information has been made available to the public. To correct the record. We have taken that up with the companies in each case where there was an American company that had an obligation to advise us of changes of collateral—we have checked with them to make sure that our records up to date are correct.

Mr. MARRINAN. That was the purpose of my next question. It has been developed in the record that at least 33 changes or substitutions of collateral occurred between July 1, 1929, and April 1, 1932. When did the stock exchange first secure knowledge of any substitutions of collateral?

Mr. ALTSCHUL. Our first knowledge—the first advice that we had of any substitution of collateral was contained in the telegram from Kreuger & Toll received by us after the death of Ivar Kreuger. I will give you the date of it later.

Mr. MARRINAN. Am I correct in stating that this information came upon inquiry initiated by the stock exchange from Kreuger & Toll Co. in Stockholm and that you received a cable under date of March 21, 1932?

Mr. ALTSCHUL. No, sir. That is in error. We received the cable out of the clear sky. It was not in response to an inquiry of ours.

Mr. MARRINAN. May I insert in the record at this point a copy of that cable, which I will ask Mr. Altschul to identify as to its accuracy.

The CHAIRMAN. If there is no objection it will be so ordered.

(Cablegram from Kreutoll to New York Stock Exchange is here printed in the record in full, as follows:)

COMMERCIAL CABLES,
Stockholm, March 21, 1932.

NEW YORK STOCK EXCHANGE,
New York:

The obligation in the listing application No. A8865 to notify you if deposited collateral for our 5 per cent secured debentures is changed or removed has for some unaccountable reason not been recorded in our office and therefore we regret

that no notification in that respect has so far been sent to you. The present collateral consists of the following securities: Dollar 922.529.51 Ecuador Mortgage Bank 7 per cent, 1949; dollar 1.879.289.94 Republic of Ecuador 8 per cent, 1953; dollar 22.000.000 Kingdom of the Serbs Croats and Slovenes 6¼ per cent, 1958; dollar 6.000.000 Republic of Latvia 6 per cent, 1964; dollar 23.848,753.65 Hungarian Cooperative Society Establishes for the Financial Liquidation of Land Reform 5½ per cent, 1979; Francs 74.900.000 Caisse Autonome des Monoples du Royaume de Roumanie 7½ per cent, 1971; Kroner 55.000 German Government International 5½ per cent, 1965; pounds 380.690 Rumanian Government Consolidation 4 per cent, 1968.

KREUTOLL.

Mr. MARRINAN. Mr. Altschul, did the New York Stock Exchange receive any official information prior to the date of the Kreutoll signed cable regarding the substituted collateral from the American trustee, Lee, Higginson Trust Co., of Boston?

Mr. ALTSCHUL. No such information came to the committee on stock list, sir. I can not speak for any other committees on the exchange, but I do not believe so.

Mr. MARRINAN. Were you present yesterday when I called attention to the difficulty of reconciling certain figures in dollars at par value as between the alleged total of pledged collateral on deposit originally as reported by Lee, Higginson, the same total as it appears in your application to list, and the record which we were furnished which gave a chronological history of all deposits and withdrawals and a total giving the position of the pledge after each change or substitution?

Mr. ALTSCHUL. Yes, sir.

Mr. MARRINAN. The point I sought to raise yesterday was not one of arithmetic, but one of emphasizing the apparent laxity which seems to have characterized this operation. Have you had an opportunity to try and check that situation out, and was I fair, in so far as you are qualified to answer, in stating that there was an apparent laxity in that situation?

Mr. ALTSCHUL. We have no information before us, Mr. Marrinan, beyond the list of the collateral that was certified to us at the time of the listing application and the list of the collateral as substituted covered by this cable of yours. The intermediate steps we only heard of through what we heard here yesterday, and we know nothing more about it than that.

Mr. MARRINAN. Did the question of the moral responsibility of Kreuger & Toll Co. or their fiscal agents, Lee, Higginson & Co., arise in considering these various provisions of the debenture agreement which accompanied the application to list?

Mr. ALTSCHUL. Yes, sir; without any question.

Mr. MARRINAN. In what way and to what effect? That is not a tricky question.

Mr. ALTSCHUL. No; I understand. The reason of my difficulty in answering that is because I would like to bring one other phase into it. The standing and reputation of Kreuger & Toll and of the bankers of Kreuger & Toll affected the stock list committee in two respects. First of all, in connection with the deposit agreements, and secondly in connection with the presentation of figures.

To clear that up, if I may, I would like to go back two years. In 1927, when the stock exchange became impressed with the increasing tendency of European domestic securities to come to this market, we appointed a special committee to go abroad and study this situation

on the spot in order that they might report to us and help us to determine what steps, if any, we should take in regard to these foreign securities, and with a view to continuing our efforts to reasonably protect the American investors.

The report of these representatives, approved by the governing committee of the New York Stock Exchange in 1927, was issued in a pamphlet entitled "The Listing of Foreign Internal Securities on the New York Stock Exchange," a copy of which I can present to the committee if you wish. In the light of this report we drew up and promulgated a circular covering the provisions for the listing of foreign internal securities on the New York Stock Exchange.

In section 7 of this report will be found a summary of the findings of the committee in the matter of foreign accounting practices, and the listing committee in determining its policy had before it evidence of the fact that in the case of most foreign companies, other than English, independent audits were practically unknown. On this account and having in mind the desirability of bringing to whatever extent possible under the supervision of the stock exchange securities which were flowing in to the American market at that time anyway, and in very considerable volume, the committee decided not to make the submission of independent audits a requirement for listing, but in connection with applications before it, to take into account the general background of the enterprise and the standing of those associated with it, both in its management and as bankers and sponsors in the American market.

It was because of these conclusions reached and because of this policy adopted that no audit was required.

At that time the committee had before it what it thought to be ample evidence in regard to the standing of Kreuger & Toll, and particularly of its guiding spirit, Ivar Kreuger. It seems necessary in the light of events to recall the atmosphere of that time.

Mr. MARRINAN. May I interrupt to ask whether you had first-hand knowledge of the Kreuger situation, or whether you were in a considerable measure dependent on Lee, Higginson & Co., as intermediaries, to get information?

Mr. ALTSCHUL. We had first-hand knowledge of the standing and reputation of Ivar Kreuger as we thought it to be.

Mr. MARRINAN. Proceed, please.

Mr. ALTSCHUL. And at that time he had a reputation that was quite above suspicion. He was regarded as one of the great constructive forces of postwar Europe, and his exploits in helping to reestablish the credit of Governments through loans made in connection with match monopolies had opened to him the doors of the leading chancelleries of Europe, and as a matter of fact, we knew that he could enter into almost any chancellery in the world and negotiate these vast deals on a magnificent scale. In fact, it was in November, 1927, within a year of the time of the issue of these obligations—I think it was a matter of public knowledge that he had bought $75,000,000 of bonds of the Government of the French Republic, and negotiated this extraordinary deal regarding the match monopoly of that country.

The CHAIRMAN. Now, it develops that his business never earned a dividend such as he paid to the stockholders.

Mr. ALTSCHUL. Quite right.

The CHAIRMAN. That he was embezzling all the time, running behind all the time, and that the joint value of his companies ought to be nearly 3,000,000,000 kroners, and it is about 27 or 28 per cent of that to-day; is that it?

Mr. ALTSCHUL. No question about that, sir. It develops that he is the greatest swindler of all time.

Mr. MARRINAN. Did you conclude?

Mr. ALTSCHUL. Yes. I thank you very much.

The CHAIRMAN. One thing more. When you came to go into the value of his property you had no statement as to that except one furnished to you by Mr. Kreuger, did you? It was on that you approved it?

Mr. ALTSCHUL. We had no audited statement. I do not know whether this will help you at all. To go back—I was looking over the records at that time, and when we went over the Kreuger statements we found that there was an engaging frankness about them that went far beyond what foreign companies were in the habit of employing.

Mr. MARRINAN. An actual frankness or a seeming frankness?

Mr. ALTSCHUL. A seeming frankness. They gave us so much more information than most European companies gave us.

The CHAIRMAN. But it turned out to be incorrect?

Mr. ALTSCHUL. It turned out to be incorrect.

Mr. MARRINAN. Mr. Altschul, was the opinion of counsel for the stock exchange requested on any of the various points which may have been specially considered by your examining force?

Mr. ALTSCHUL. You are talking now about the indenture, I suppose?

Mr. MARRINAN. Yes; the indenture.

Mr. ALTSCHUL. No, sir; we never had occasion to consult counsel about the indenture. The special features of the indenture which have been discussed so much here were brought to the attention of the committee, they were discussed, and they were considered in the light of the representations that were made to us about the extraordinary character of his business which required this unusual degree of flexibility, and his credit was so above suspicion that we looked upon the security as just a little added velvet. We felt that it was not really necessary at all.

Mr. MARRINAN. Then in the light of experience and perhaps what you have heard around the table in the last day and a half, do you think it would be wise in the future to consult counsel about such extraordinary debentures as this one?

Mr. ALTSCHUL. I think that it is our general practice when there are provisions that seem to us so extraordinary as to warrant consulting counsel, to do so. And I think that if we see provisions in an indenture that suggest to us the need of consulting counsel we will continue to do so. The trouble about this thing is that it did not seem to us from a legal point of view to be so extraordinary as to require special legal advice.

Mr. MARRINAN. Is it customary, Mr. Altschul, to have such great latitude for substitution provided in an indenture?

Mr. ALTSCHUL. This was in my experience quite a unique document.

The CHAIRMAN. May I ask: Never one like it before that you know of, was there?

Mr. ALTSCHUL. No, sir.

The CHAIRMAN. No American was accorded the privilege that you gave to the European in that case?

Mr. ALTSCHUL. No American as far as I know has ever applied for that treatment.

Mr. MARRINAN. The point I wish to make is that if you encountered another one of these unique documents you are likely to scrutinize it a little bit more carefully in all particulars than was the case in this instance?

Mr. ALTSCHUL. We have learned a great deal from this experience, sir.

Mr. MARRINAN. Is it fair to say, Mr. Altschul, that the New York Stock Exchange, in so far as we have thus far proceeded, relied substantially upon the good repute of the firm of Lee, Higginson & Co., the principal house of issue and a member of the exchange?

Mr. ALTSCHUL. Will you be good enough to repeat the question?

Mr. MARRINAN. I will ask the reporter to read it. (The last question was thereupon read by the reporter as above recorded.)

Mr. ALTSCHUL. I am not sure that I understand the question, but as I understand it I would say no, sir. I think we relied upon the reputation of Kreuger & Toll and on the documents that were submitted to us primarily, and then beyond that took into account the fact that they were submitted by sponsors of high standing.

The CHAIRMAN. When you say that you have reference both to the banking house and the firm of attorneys?

Mr. ALTSCHUL. I was trying to differentiate between the two. Our primary concern was with the papers that were presented to us and the standing of the debtor corporation as we thought we knew it.

The CHAIRMAN. But you went further.

Mr. ALTSCHUL. And beyond that we took into account, as I say, the fact that the sponsors were considered of high standing.

The CHAIRMAN. When you say "sponsors," you are talking about the banking house and the firm of attorneys?

Mr. ALTSCHUL. I am talking about the banking house. The firm of attorneys did not concern us one way or another.

Mr. MARRINAN. I have noticed in the press that the New York Stock Exchange has approved a new regulation with respect to new applications for listing. Will you explain to the committee as briefly as is consistent with an understanding what these new regulations provide? Please do not go into the matter fully. Just give us the high points.

Mr. ALTSCHUL. Without going into the matter fully I would say this, that the custom of demanding audits—you are talking about the audits?

Mr. MARRINAN. Audits; yes.

Mr. ALTSCHUL. The custom of demanding audits is rather a new one, and really up until about 1924 or 1925 or 1926 it was hardly grounded American practice, and the stock exchange has tried to keep a little ahead of American practice and to lead it to a certain extent, but the fact is that up to 1924 or 1925 or 1926 the practice of auditing accounts was not very general.

In 1926 we began to inquire into that thing, and our first step was to try and exert our influence in the direction of getting audits from companies, and at that time it was not an independent outside auditor that was always required. Since then we have been developing our

policy and we have been using our influence more and more in the direction of getting independent, outside auditors' reports. Sometimes we meet hurdles that we are not able to take.

And largely as the result of our experience with this thing, this episode of Kreuger & Toll, we finally concluded that we might as well go the whole hog and make it an absolutely essential requirement for listing after July 1 of the coming year.

Ever since April of the year 1932 we have had it a rule of the committee not to list any securities of a corporation unless the corporation would enter into an agreement to have its reports, its subsequent statements, audited. The reason we did that was that we did not want to slap on a new rule that would get into the way of perfectly legitimate enterprises when the companies had not had the time to have their audits made. They might have been going on unaudited for years. But we did make the requirement that subsequent statements should be audited, and as Mr. Whitney pointed out in his announcement in regard to that matter, since that rule was adopted in April there have been no exceptions. I think possibly in the case of one railroad company——

Mr. MARRINAN. When does the rule become effective?

Mr. ALTSCHUL. That rule I am talking about was a rule of the committee effective since last April, but that was the rule which called for an agreement to have subsequent independent audits. Now the new rule is the rule that says that securities can not be listed unless the application is itself accompanied with current audit.

Mr. MARRINAN. And that is not only an audit of the company if it is a holding company, but also includes supporting audits of subsidiaries, which becomes effective as of July 1 for all new applications?

Mr. ALTSCHUL. Yes, sir.

Mr. MARRINAN. Are you giving consideration to the application of that rule to listed securities?

Mr. ALTSCHUL. We make a constant effort in connection with listed securities to get them to agree to the rule. I do not know whether you have the figures here, Mr. Haskell, of the degree of our success. But we have a very large percentage of listed companies that now do present audited statements, and our constant endeavor is to increase the number. It is a preponderating percentage to-day. I mean it is not 10 or 20 or 30 per cent. It is in the neighborhood of——

Mr. HASKELL. Seventy-five or eighty.

Mr. ALTSCHUL. Seventy-five or eighty per cent.

Mr. MARRINAN. Will you make that last statement clear, Mr. Altschul; that percentage statement that Mr. Haskell supplied?

Mr. ALTSCHUL. Yes. The percentage of companies listed to-day that do have independent audits is in the neighborhood of 75 to 80 per cent, and may be higher, but it is a preponderating percentage.

Mr. MARRINAN. Of your complete list?

Mr. ALTSCHUL. Of our complete list, with the exception, as Mr. Haskell pointed out, of certain leased companies where the position is a special one and it is not required.

Mr. MARRINAN. Is there any security on the exchange which by any stretch of the imagination through foreign subsidiaries, and so forth, might present such a situation as we have of Kreuger & Toll?

Mr. ALTSCHUL. That is a difficult question for me to answer.

Mr. MARRINAN. Have you been looking for such a proposition?

Mr. ALTSCHUL. Oh, we are constantly on the lookout for these things, and a terrible experience like the Kreuger & Toll wakes us all up. But I know of no such situation to-day.

Mr. MARRINAN. Is your committee, Mr. Atlschul, giving consideration to the extention of this new regulation within a practicable date to the entire list as a requirement?

Mr. ALTSCHUL. There is a certain degree of difficulty involved.

Mr. MARRINAN. Are you considering it, Mr. Altschul?

Mr. ALTSCHUL. Yes.

Mr. MARRINAN. I wish to develop that through questions.

Mr. ALTSCHUL. All right, I will answer them as to that.

Mr. MARRINAN. In so far as you are able to speak yourself—I realize that while you are an influential member of the exchange, that you are not empowered to determine broad matters of policy—in so far as you are able to speak for yourself would you favor or do you favor such a program?—That is, a ruling which would require independent audits backed by audits, of course, of subsidiaries, and making only such few exceptions as might be necessary?

Mr. ALTSCHUL. Speaking personally I think it would be highly desirable if all companies that seek to enlist the capital of investors in their enterprise should be required to have full and complete independent audited reports. Does that answer your question?

Mr. MARRINAN. Yes, sir.

The CHAIRMAN. The confidence of investors has been considerably shaken by a number of things that have happened, and you feel it will be necessary to meet the situation a little better in the future? That is the idea?

Mr. ALTSCHUL. No question about that, sir.

Now may I at this point develop along another line which I do not think has come to your attention by way of illustrating the activities of the exchange in these matters. We have been laying so much emphasis in recent years on the obtaining of independent audited statements that we have begun to wonder whether an independent audited statement, which may mean so much and may mean so little, would not in itself become ultimately a matter that would involve further deception of the public. We have been having, therefore, a series of meetings and conferences with accountants with a view to seeing whether as long as the public is going to be asked to place so much reliance on the statements of independent auditors, if we can not get some agreements in cooperation with the accountants in regard to some of the general governing principles of accounting and in regard to accounting practice.

An auditor's certificate—and I am not speaking as an auditor now, or qualified to speak as an auditor—but an auditor's certificate may be perfectly true as representing the condition of the books, but there are so many different kinds of ways in which the books themselves can be kept, that unless you have got some standardized practice that goes beyond the mere certificate, the chances of deceit are still inherent in the situation. And as I said, the stock exchange was very anxious to see that the maximum good was obtained for the investor.

I have here a preliminary report which I should like to submit for your investigation, showing what we have done up to date.

Mr. MARRINAN. May I request, Mr. Chairman, that this document entitled "Value and Limitations of Corporate Accounts and General

Principles for Preparation of Reports to Stockholders" be accepted for possible inclusion in the record, and subject to examination by some one for the committee before it is so accepted?

The CHAIRMAN. If there is no objection that suggestion of Mr. Marrinan will prevail.

(A pamphlet headed "Value and Limitations of Corporate Accounts and General Principles for Preparation of Reports to Stockholders. Report of Committee of American Institute of Accountants on Cooperation with Stock Exchanges" was presented to the committee by Mr. Altschul.)

VALUE AND LIMITATIONS OF CORPORATE ACCOUNTS AND GENERAL PRINCIPLES FOR PREPARATIONS OF REPORTS TO STOCKHOLDERS

(Report of committee of American Institute of Accountants in cooperation with stock exchanges)

AMERICAN INSTITUTE OF ACCOUNTANTS (INC.),
September 22, 1932.

THE COMMITTEE ON STOCK LIST,
New York Stock Exchange, New York, N. Y.

DEAR SIRS: In accordance with suggestions made by your executive assistant, this committee has given careful consideration to the subject of the general line of development of the activities of the exchange in relation to annual reports of corporations.

It believes that there are two major tasks to be accomplished—one is to educate the public in regard to the significance of accounts, their value, and their unavoidable limitations, and the other is to make the accounts published by corporations more informative and authoritative.

The nature of a balance sheet or an income account is quite generally misunderstood, even by writers on financial and accounting subjects. Prof. William Z. Ripley has spoken of a balance sheet as an instantaneous photograph of the condition of a company on a given date. Such language is apt to prove doubly misleading to the average investor—first, because of the implication that the balance sheet is wholly photographic in nature, whereas it is largely historical; and, secondly, because of the suggestion that it is possible to achieve something approaching photographic accuracy in a balance sheet which, in fact, is necessarily the reflections of opinions subject to a (possibly wide) margin of error.

Writers of textbooks on accounting speak of the purpose of the balance sheet as being to reflect the values of the assets and the liabilities on a particular date. They explain the fact that in many balance sheets certain assets are stated at figures which are obviously far above or far below true values by saying that the amounts at which such assets are stated represent "conventional" valuations. Such statements seem to involve a misconception of the nature of a balance sheet.

In an earlier age, when capital assets were inconsiderable and business units in general smaller and less complex than they are to-day, it was possible to value assets with comparative ease and accuracy and to measure the progress made from year to year by annual valuations. With the growing mechanization of industry, and with corporate organizations becoming constantly larger, more completely integrated and more complex, this has become increasingly impracticable. From an accounting standpoint, the distinguishing characteristic of business to-day is the extent to which expenditures are made in one period with the definite purpose and expectation that they shall be the means of producing profits in the future; and how such expenditures shall be dealt with in accounts is the central problem of financial accounting. How much of a given expenditure of the current or a past year shall be carried forward as an asset can not possibly be determined by an exercise of judgment in the nature of a valuation. The task of appraisal would be too vast, and the variations in appraisal from year to year due to changes in price levels or changes in the mental attitude of the appraisers would in many cases be so great as to reduce all other elements in the computations of the results of operations to relative insignificance.

Carrying the thought one stage further; it is apparent that the real value of the assets of any large business is dependent mainly on the earning capacity of the enterprise. This fact is fairly generally recognized by intelligent investors as

regards capital assets such as plant and machinery, but it is not equally generally recognized that it is true, though to a lesser extent, in respect to such assets as inventories and trade accounts receivable. Those, however, who have had expeperience in liquidations and reorganizations realize that in many industries it becomes impossible to realize inventories or accounts receivable at more than a fraction of their going-concern value, once the business has ceased to be a going concern. To attempt to arrive at the value of the assets of a business annually by an estimation of the earning capacity of the enterprise would be an impossible and unprofitable task. Any consideration of the accounts of a large business enterprise of to-day must start from the premise that an annual valuation of the assets is neither practical nor desirable.

Some method, however, has to be found by which the proportion of a given expenditure to be charged against the operations in a year, and the proportion to be carried forward, may be determined; otherwise, it would be wholly impossible to present an annual income account. Out of this necessity has grown up a body of conventions, based partly on theoretical and partly on practical considerations, which form the basis for the determination of income and the preparation of balance sheets to-day. And while there is a fairly general agreement on certain broad principles to be followed in the formulation of conventional methods of accounting, there remains room for differences in the application of those principles which affect the results reached in a very important degree.

This may be made clearer by one or two illustrations. It is a generally accepted principle that plant value should be charged against gross profits over the useful life of the plant. But there is no agreement on the method of distribution. The straight-line method of providing for depreciation which is most commonly employed by industrial companies, the retirement reserve method used by utilities, the sinking fund method, the combined maintenance and depreciation method, and others, are supported by respectable argument and by usage, and the charges against a particular year may vary a hundred per cent or more according as one or the other permissible method is employed.

Again, the most commonly accepted method of stating inventories is at cost or market, whichever is lower; but within this rule widely different results may be derived, according to the detailed methods of its application. For instance, at times like the present, cost of finished goods may be deemed to be the actual cost as increased by subnormal operation, or a normal cost computed on the basis of a normal scale of operations. It may or may not include interest during the period of production, or various kinds of overhead expenses. Market value may be either gross or net after deducting direct selling expenses. The choice between cost or market may be made in respect of each separate item or of classes of items, or of the inventory as a whole. Frequently, whether a profit or a loss for the year is shown depends on the precise way in which the rule is applied. And since the conventions which are to be observed must, to possess value, be based on a combination of theoretical and practical considerations, there are few if any, which can fairly be claimed to be so inherently superior in merit to possible alternatives that they alone should be regarded as acceptable.

Most investors realize to-day that balance sheets and income accounts are largely the reflection of individual judgments and that their value is therefore to a large extent dependent on the competence and honesty of the persons exercising the necessary judgment. The importance of method, and particularly of consistency of method from year to year is by no means equally understood.

In considering ways of improving the existing situation two alternatives suggest themselves. The first is the selection by competent authority out of the body of acceptable methods in vogue to-day of detailed sets of rules which would become binding on all corporations of a given class. This procedure has been applied broadly to the railroads and other regulated utilities, though even such classifications as, for instance, that prescribed by the Interstate Commerce Commission allow some choice of method to corporations governed thereby. The arguments against any attempt to apply this alternative to industrial corporations generally are, however, overwhelming.

The more practicable alternative would be to leave every corporation free to choose its own methods of accounting within the very broad limits to which reference has been made, but require disclosure of the methods employed and consistency in their application from year to year. It is significant that Congress in the Federal income tax law has definitely adopted this alternative, every act since that of 1918 having contained a provision that the net income shall be computed "in accordance with the method of accounting regularly employed in keeping the books of such taxpayer" unless such method does not clearly reflect

income. In its regulations the Internal Revenue Bureau has said, "the law contemplates that each taxpayer shall adopt such forms and systems of accounting as are in his judgment best suited to his purpose." (Reg. 45, art. 24.) The greatest value of classifications such as those imposed on regulated utilities lies in the disclosure of method and consistency of method which they tend to produce.

Within quite wide limits, it is relatively unimportant to the investor what precise rules or conventions are adopted by a corporation in reporting its earnings if he knows what method is being followed, and is assured that it is followed consistently from year to year. Reverting to the illustrations already used, the investor would not need to be greatly concerned whether the straight-line or the sinking-fund method of providing for depreciation were being employed by a given corporation, provided he knew which method was being used and knew that it was being applied in the same way every year. But if depreciation is charged in one year on the straight-line basis applied to cost, and in another is charged on a sinking-fund basis applied to a valuation less than cost, the investor may be grossly deceived unless the change is brought to his notice. For this reason, the requirement of the exchange that the depreciation policy of a company applying for listing shall be stated in the application is valuable, and it might well be amplified to include an undertaking to report to the exchange and to stockholders any change of policy or any material change in the manner of its application.

Again, it is not a matter of great importance to investors whether the cost or market rule for stating inventories is applied to individual items or to the inventory as a whole, but it is very important to the investor that he should be advised if the test is applied to individual items at the beginning of the year and to the inventory as a whole at the close thereof.

It is probably fairly well recognized by intelligent investors to-day that the earning capacity is the fact of crucial importance in the valuation of an industrial enterprise, and that therefore the income account is usually far more important than the balance sheet. In point of fact, the changes in the balance sheets from year to year are usually more significant than the balance sheets themselves.

The development of accounting conventions has, consciously or unconsciously, been, in the main, based on an acceptance of this proposition. As a rule, the first objective has been to secure a proper charge or credit to the income account for the year, and in general the presumption has been that once this is achieved the residual amount of the expenditure or the receipt could properly find its place in the balance sheet at the close of the period, the principal exception being the rule calling for reduction of inventories to market value if that is below cost. But if the income account is to be really valuable to the investor, it must be presented in such a way as to constitute to the fullest possible extent an indication of the earning capacity of the business during the period to which it relates. This committee feels that the direction of the principal efforts of the exchange to improve the accounting reports furnished by corporations to their stockholders should be towards making the income account more and more valuable as an indication of earning capacity.

The purpose of furnishing accounts to shareholders must be not only to afford them information in regards to the results being achieved by those to whom they have entrusted the management of the business, but to aid them in taking appropriate action to give effect to the conclusions which they reach regarding such accomplishments. In an earlier day, stockholders who were dissatisfied with the results secured by the management could perhaps move effectively to bring about a change of policy, or failing that, a change of management. With the growth in magnitude of corporations and the present wide diffusion of stock holdings, any such attempt is ordinarily impracticable because of the effort and expenditure that it would entail. The only practical way in which an investor can to-day give expression to his conclusions in regard to the management of a corporation in which he is interested is by retaining, increasing, or disposing of his investment, and accounts are mainly valuable to him in so far as they afford guidance in determining which of these courses he shall pursue.

There is no need to revolutionize or even to change materially corporate accounting, but there is room for great improvement in the presentation of the conclusions to which accounts lead. The aim should be to satisfy (so far as is possible and prudent) the investor's need for knowledge, rather than the accountant's sense of form and respect for tradition, and to make very clear the basis on which accounts are prepared. But even when all has been done that can be done, the limitations on the significance of even the best of accounts must be

recognized, and the shorter the period covered by them the more pronounced usually are these limitations. Accounts are essentially continuous historical records; and as is of true history in general, correct interpretations and sound forecasts for the future can not be reached upon a hurried survey of temporary conditions, but only by longer retrospect and a careful disinction between permanent tendencies and transitory influences. If the investor is unable or unwilling to make or secure an adequate survey, it will be best for him not to rely on the results of a superficial one.

To summarize, the principal objects which this committee think the exchange should keep constantly in mind and do its best gradually to achieve are:

1. To bring about a better recognition by the investing public of the fact that the balance sheet of a large modern corporation does not and should not be expected to represent an attempt to show present values of the assets and liabilities of the corporation.

2. To emphasize the fact that balance sheets are necessarily to a large extent historical and conventional in character, and to encourage the adoption of revised forms of balance sheets which will disclose more clearly than at present on what basis assets of various kinds are stated (e. g., cost, reproduction cost less depreciation, estimated going concern value, cost or market whichever is lower, liquidating value, etc.).

3. To emphasize the cardinal importance of the income account, such importance being explained by the fact that the value of a business is dependent mainly on its earning capacity; and to take the position that an annual income account is unsatisfactory unless it is so framed as to constitute the best reflection reasonably obtainable of the earning capacity of the business under the conditions existing during the year to which it relates.

4. To make universal the acceptance by listed corporations of certain broad principles of accounting which have won fairly general acceptance (see Exhibit I attached), and within the limits of such broad principles to make no attempt to restrict the right of corporations to select detailed methods of accounting deemed by them to be best adapted to the requirements of their business; but—

(*a*) To ask each listed corporation to cause a statement of the methods of accounting and reporting employed by it to be formulated in sufficient detail to be a guide to its accounting department (see Exhibit II attached); to have such statement adopted by its board so as to be binding on its accounting officers; and to furnish such statement to the exchange and make it available to any stockholder on request and upon payment, if desired, of a reasonable fee.

(*b*) To secure assurances that the methods so formulated will be followed consistently from year to year and that if any change is made in the principles or any material change in the manner of application, the stockholders and the exchange shall be advised when the first accounts are presented in which effect is given to such change.

(*c*) To endeavor to bring about a change in the form of audit certificate so that the auditors would specifically report to the shareholders whether the accounts as presented were properly prepared in accordance with the methods of accounting regularly employed by the company, defined as already indicated.

This committee would be glad to discuss these suggestions with you at any time, and to cooperate with the exchange in any action it may see fit to take along the lines indicated.

Yours very truly,

GEORGE O. MAY, *Chairman.*

EXHIBIT I

It is suggested that in the first instance the broad principles to be laid down as contemplated in paragraph 4 of the suggestions should be few in number. It might be desirable to formulate a statement thereof only after consultation with a small group of qualified persons, including corporate officials, lawyers, and accountants. Presumably the list would include some if not all of the following:

1. Unrealized profit should not be credited to income account of the corporation either directly or indirectly, through the medium of charging against such unrealized profits amounts which would ordinarily fall to be charged against income account. Profit is deemed to be realized when a sale in the ordinary course of business is effected, unless the circumstances are such that the collection of the sale price is not reasonably assured. An exception to the general rule may be made in respect of inventories in industries (such as the packing-house industry) in which owing to the impossibility of determining costs it is a trade custom to take inventories at net selling prices which may exceed cost.

2. Capital surplus, however created, should not be used to relieve the income account of the current or future years of charges which would otherwise fall to be made thereagainst. This rule might be subject to the exception that where, upon reorganization, a reorganized company would be relieved of charges which would require to be made against income if the existing corporation were continued, it might be regarded as permissible to accomplish the same result without reorganization provided the facts were as fully revealed to and the action as formally approved by the shareholders as in reorganization.

3. Earned surplus of a subsidiary company created prior to acquisition does not form a part of the consolidated earned surplus of the parent company and subsidiaries; nor can any dividend declared out of such surplus properly be credited to the income account of the parent company.

4. While it is perhaps in some circumstances permissible to show stock of a corporation held in its own treasury as an asset if adequately disclosed, the dividends on stock so held should not be treated as a credit to the income account of the company.

5. Notes or accounts receivable due from officers, employees, or affiliated companies must be shown separately and not included under a general heading such as notes receivable or accounts receivable.

The exchange would probably desire to add a rule regarding stock dividends.

EXHIBIT II

The statement of the methods of accounting contemplated in paragraph 4a of the suggestion would not be in the nature of the ordinary detailed classification of accounts, nor would it deal with the machinery of bookkeeping. It should constitute a clear statement of the principles governing the classification of charges and credits as between (*a*) balance-sheet accounts, (*b*) income account, and (*c*) surplus account, together with sufficient details of the manner in which these principles are to be applied to enable an investor to judge of the degree of conformity to standard usage and of conservatism of the reporting corporation. Its content would vary according to the circumstances of individual companies, but some of the more important points which would be disclosed thereby would be as follows:

THE GENERAL BASIS OF THE ACCOUNTS

Whether the accounts are consolidated, and if so, what rule governs the determination of the companies to be included in consolidation; also, a statement as to how profits and losses of subsidiary and controlled companies not consolidated are dealt with in the accounts of the parent company.

THE BALANCE SHEET

(*a*) In respect of capital assets, the statement should show:

(1) What classes of items are charged to property account (whether only new property or also replacements and improvements).

(2) Whether any charges in addition to direct cost, either for overhead expense, interest, or otherwise are made to property accounts.

(3) Upon what classes of property, on what basis, and at what rates provision is made for, or in lieu of, depreciation.

(4) What classes of expenditures, if any, are charged against reserves for depreciation so created.

(5) How the difference between depreciated value and realized or realizable value is dealt with on the sale or abandonment of units of property.

(6) On what basis property purchased from subsidiary companies is charged to property account (whether at cost to subsidiary or otherwise).

(*b*) In respect of inventories: The statement should show in fairly considerable detail the basis of valuation of the inventory. The statement under this head would be substantially a summary in general terms of the instructions issued by the company to those charged with the duty of preparing the actual inventories. It would not be sufficient to say that the inventory was taken on the basis of cost or market, whichever is lower. The precise significance attached to these terms should be disclosed, for the reasons set forth on page 3 of the letter.

The statement should include a specific description of the way in which any intercompany profit on goods included in the inventory is dealt with. It should show under this head, or in relation to income or surplus account, exactly how reductions from cost to market value are treated in the accounts and how the inventories so reduced are treated in the succeeding period. It is, for instance, a

matter of first importance to investors if inventories have been reduced to cost or market at the end of the year by a charge to surplus account, and the income for the succeeding year determined on the basis of the reduced valuation of the inventory thus arrived at. Obviously, under such a procedure the aggregate income shown for a series of years is not the true income for the period.

(*c*) In respect of securities: The statement should set forth what rules govern the classification of securities as marketable securities under the head of "current assets" and securities classified under some other head in the balance sheet. It should set forth in detail how any of its own securities held by the reporting corporation, or in the case of a consolidated statement any securities of any company in the group held by that or any other member of the group are dealt with in the balance sheet. (Stock of subsidiaries held by the parent will of course be eliminated in consolidation.) The disclosure of the basis of valuation of securities is covered in paragraph 2, page 6, of the recommendations contained in the letter.

(*d*) Cash and receivables present few questions, though where sales are made on the installment plan, or on any other deferred basis, their treatment should be fully set forth, including a statement of the way in which provision is made for future collection or other expenses relating to sales already made but not liquidated, and to what extent deferred accounts are included in current assets.

(*e*) Deferred charges: The statement should set forth what classes of expenditures are in the company's practice deferred and what procedure is followed in regard to the gradual amortization thereof. (This question is of considerable importance as substantial overstatements of income may occur through deferment in unprosperous periods of expenses ordinarily chargeable against current operations, possibly followed by writing off such charges in a later year against surplus account.)

(*f*) Liability accounts: There is normally less latitude in regard to the treatment of liability accounts than in respect of assets. The statement should clearly show how unliquidated liabilities, such as damage claims, unadjusted taxes, etc., are dealt with. The statement should disclose whether it is the practice of the company to make a provision for onerous commitments or deal with such commitments in any way in the balance sheet.

(*g*) Reserves: A statement of the rules governing credits and charges to any reserve account (including both those shown on the liability side and those deducted from assets) should be given in detail. It is particularly important to know whether losses, shrinkages, or expenses which would otherwise be chargeable against income accounts are in any circumstances charges against contingent or other reserves, and whether such reserves are built up partly or wholly otherwise than by charges to income account.

THE INCOME ACCOUNT

An adequate statement in regard to the treatment of balance sheet items discloses by inference what charges and credits are made to income account or surplus. The additional points required to be disclosed are the principles followed in allocating charges and credits to income account and surplus account respectively, and the form of presentation of the income account. The form should be such as to show separately (*a*) operating income; (*b*) depreciation and/or depletion if not deducted in arriving at (*a*), in which case the amount of the deduction should be shown; (*c*) income from companies controlled but not consolidated (indicating the nature thereof); (*d*) other recurring income; (*e*) any extraordinary credits; (*f*) charges for interest; (*g*) income taxes; and (*h*) any extraordinary charges.

The company's proportionate share of the undistributed earnings or losses for the year of companies controlled but not consolidated should be disclosed in a note or otherwise on the face of the income account. Stock dividends if credited to income should be shown separately with a statement of the basis upon which the credit is computed.

Mr. MARRINAN. Mr. Altschul, has the exchange in your opinion sufficient power over companies already listed—some of them going back many years—to enforce such a ruling requiring independent audits on listed issues, if it desires to do so?

Mr. ALTSCHUL. I am afraid I am going to answer that question in a way that is quite unsatisfactory. I do not believe the exchange can go more than a certain degree in advance of public opinion. If

public opinion is clearly back of the exchange I think it can enforce any requirement it desires to make. But when we are in the realm of pioneering in respect to something that public opinion has not yet become aroused about, sometimes we have to make haste slowly.

Mr. MARRINAN. If you felt that as a matter of business integrity it was necessary to take a lead in this situation, what instruments have you within the exchange which may be used by way of persuasion or coercion over the companies which have securities now listed to bring them into line? What are your instruments?

Mr. ALTSCHUL. Well, the instrument of persuasion is the stock list committee itself, and particularly its executive assistant who is particularly persuasive and tries to accomplish these purposes by diplomatic means all the time. Other than persuasiveness, the only instrument of coercion we have is the power to strike a stock from the list.

The CHAIRMAN. When you speak of public opinion you also have reference to the attitude of those who desire to list their stock and their demands upon you, do you not?

Mr. ALTSCHUL. I think, sir, we are very little influenced in our policies or our judgments by the attitude of those who desire to list their stock. The stock list committee is trying to perform a function of usefulness from the point of view of protecting the investor in so far as it can.

The CHAIRMAN. Well, the matter of listing is entirely between them and you anyway. If they do not stand in your way, you can impose whatever terms you want.

Mr. ALTSCHUL. Yes, there is no question about that, and our terms are more stringent all the time. Our latest ruling is a development along those lines, sir. I did not understand your question.

Mr. MARRINAN. Then the coercive influence that you may bring to bear is the threat to strike from the list. Can that be done readily with a security which has been on the list for a long time?

Mr. ALTSCHUL. If you are speaking as a matter of the power of the committee, with the approval of the governing committee, yes, sir. If you are speaking as a practical matter, no, sir.

Mr. MARRINAN. Will you explain the difficulty on the practical side?

Mr. ALTSCHUL. On the practical side the difficulty is that striking from the list may involve a very considerable hardship on the very large number of stockholders who prefer having their security on the New York Stock Exchange to having a certain additional amount of information.

Mr. MARRINAN. Its position on the list also gives it a certain marketability and added value which it might lose or doubtless would lose if stricken from the list, and you have some responsibility to the existing shareholders in that particular? Am I correct?

Mr. ALTSCHUL. That is correct. We constantly have to weigh these two considerations.

Mr. MARRINAN. Do companies sometimes with knowledge of that situation virtually put you up against the decision—do they put it up to you to strike them from the list on the basis that they believe that any consideration of the points to which we have just referred will persuade you that you ought not to do it? In other words, do they in effect defy you?

Mr. ALTSCHUL. Well, without using just your words, in some cases we have found that the background of the company attitude was the feeling that we would be sacrificing the interest of investors so largely by frivolously striking the stock from the list that we would probably be unwilling in the last analysis to do that. Does that answer your question clearly?

Mr. MARRINAN. And they take advantage of the situation to some extent?

Mr. ALTSCHUL. Well, I think when they are faced with a request of ours they have that consideration in mind sometimes.

Mr. MARRINAN. Do you think, Mr. Altschul, we have in these circumstances a situation involving broad questions of public interest in which the exchange itself at times may have some doubt about its own power to act with justice to all the interests involved?

Mr. ALTSCHUL. No, sir. My feeling is that we have been going through a period of exploration, and we are going to be forced sooner or later—and probably sooner rather than later—to take these steps that we are very reluctant to take because of the interests of investors in a particular situation, in order that the interests of investors generally should be protected. Is that clear?

In other words, I think we are going to get to the point to do this very thing that we have been reluctant to do. We have been negotiating, we have been talking, we have been discussing with the companies from time to time and making a little progress here and making a little progress there—in general, not progress in all cases that we consider satisfactory.

The implication of striking from the list is so serious that it is a last resort that we have wanted to avoid if it could be avoided. But I think that the public is entitled to the information that we have been seeking in their behalf, and I think when it comes to a show-down we are going to have to exert our power unaffected by the fact that in particular situations stockholders may suffer.

Mr. MARRINAN. That is the close of my examination.

The CHAIRMAN. I thank you very much.

Mr. ALTSCHUL. Is that all, sir?

The CHAIRMAN. That will be all.

Mr. ALTSCHUL. I will not be needed this afternoon?

The CHAIRMAN. While we would like to have you consider yourself as being under subpœna, I do not know that we will need you; no.

We will recess at this time until 2.30 o'clock, meeting in this room. We will then have as witnesses Gilmer Siler, partner in the stock-brokerage house of Eastman, Dillon & Co., and Allen L. Lindley, chairman of committee on business conduct of the New York Stock Exchange.

(Thereupon, at 12.45 p. m., a recess was taken until 2.30 o'clock p. m. the same day, Thursday, January 12, 1933.)

AFTER RECESS

(The subcommittee met at 2.30 o'clock p. m. on the expiration of the recess.)

The CHAIRMAN. The subcommittee will resume. Mr. Siler will please come forward, hold up his right hand, and be sworn.

You do solemnly swear that you will tell the truth, the whole truth, and nothing but the truth regarding the matter now under investigation by this subcommittee, so help you God?

Mr. SILER. I do.

TESTIMONY OF GILMER SILER, PARTNER OF EASTMAN, DILLON & CO., NEW YORK CITY

(The witness was duly sworn by the chairman of the subcommittee.)

Mr. MARRINAN. Mr. Siler, please give to the committee reporter your full name and address.

Mr. SILER. Gilmer Siler, 120 Broadway, New York City.

Mr. MARRINAN. You are a partner in the firm of Eastman, Dillon & Co.; is that correct?

Mr. SILER. Yes.

Mr. MARRINAN. Are you acquainted with the provisions of an agreement between Ivar Kreuger and Eastman, Dillon & Co. negotiated under date of January 25, 1932, under the terms of which Kreuger obtained a loan of $1,000,000 in cash from your house?

Mr. SILER. Yes. I have read the agreement and know something of it.

Mr. MARRINAN. Did you participate in the negotiation of this agreement?

Mr. SILER. No.

Mr. MARRINAN. Is it correct that another partner in the firm, Mr. Maurice H. Bent, did actually participate in the general preliminaries which preceded that agreement?

Mr. SILER. Yes.

Mr. MARRINAN. I may say for the information of the members of the subcommittee that Mr. Siler made this situation clear to me in New York; that he informed me of the whereabouts of Mr. Bent, who was at the time in Arizona; that he satisfied me that he could be sufficiently helpful through his knowledge of this sitaution to make unnecessary the subpœnaing of Mr. Bent from Arizona; and so the matter was left in that fashion.

Now, Mr. Siler, have you knowledge of the extent of the stock-trading operations conducted by Ivar Kreuger?

Mr. SILER. What knowledge I have of them, Mr. Marrinan, has come since his death. At the time when this contract was negotiated we did not know of any operations that he had going on the Street at all.

Mr. MARRINAN. It was disclosed in court proceedings in the United States District Court for the Southern District of New York, by a man by the name of Anders Jordahl, that he represented Kreuger in stock-trading operations, presumably on quite a large scale. Do you know Mr. Jordahl?

Mr. SILER. I have met him, yes.

Mr. MARRINAN. Before you answer this question, Mr. Siler, let me say this: The subcommittee has knowledge of and has located certain witnesses who can be summoned. Those witnesses have a comprehensive knowledge, we are advised, of the operations of Kreuger in the stock market. It is our hope, in the interest of expediting this inquiry, that we shall not have to go outside of those now here present

for any additional facts. Now, for my question: The impression appears to be abroad that in addition to being a great swindler Ivar Kreuger was a great gambler and speculator in stocks. What is your opinion from what you know personally and from what you may have gathered from reliable sources in the Street about that matter?

Mr. SILER. Well, it developed after his death that he had either sponsored or otherwise supported accounts in several houses besides our own. That was a disclosure to us. We did not know it before. Those houses, however, I do not remember now by name with the possible exception of one, because we had no control, nor any interest in fact in them, and the fact that they existed, that those accounts existed, however did become known to us after Mr. Kreuger's death.

Mr. MARRINAN. It is a matter of common knowledge now, that Mr. Kreuger did operate on quite a comprehensive scale during the period immediately preceding his death, and probably for some time earlier, is it not?

Mr. SILER. Well, certainly immediately preceding his death there were several accounts that he must have been sponsoring.

Mr. MARRINAN. Now, to return to this loan contract above mentioned: In the interest of proceeding as rapidly as possible let me describe this contract briefly as I understand it, and during my description you may interrupt me if I make any misstatements. The idea now is to bring out before the subcommittee the outstanding points in the contract rapidly. This contract provided, first, for a loan of $1,000,000 to Ivar Kreuger by Eastman, Dillon & Co. The loan was for a period of three months from the date of January 25, 1932, at the interest rate of 8 per cent——

Mr. SILER (interposing). If you would like an interruption at that point, let me say that the question of the interest rate was fixed at that figure by Mr. Kreuger's wish. The actual fact, however, was that the rate included a charge other than for interest.

Mr. MARRINAN. What was the other charge?

Mr. SILER. I think it was based on a 6 per cent rate, with an additional commission charge on it, that was a part of the charge for making the loan to him.

Mr. MARRINAN. At that time or on that day the going rate for 90-day money at banks was somewhere around 3½ to 3¾ per cent, was it not?

Mr. SILER. We understood, however, Mr. Marrinan, at that time that the going rate abroad for collateral loans of this character was 8 per cent.

Mr. MARRINAN. Mr. Kreuger deposited as collateral for this loan 400,000 shares of Kreuger & Toll stock, valued at the market at that time at $2,800,000. He agreed to maintain collateral of a minimum value of $2,500,000 against this loan during its life, in the current market value of the shares.

Mr. SILER. That is right.

Mr. MARRINAN. Additional provisions were included, wherein a special trading account involving what some members of this subcommittee know as an account to peg the market, or as one might say, to stabilize or support the market.

Mr. SILER. It was a marginal account.

Mr. MARRINAN. But that language is incorporated in the loan agreement, that the trading account is to stabilize or support the market.

Mr. SILER. Well, it was not so much a matter of support as I understood it, but the question of a stability of the market, to keep it from rapid and erratic fluctuations. Mr. Kreuger thought there could be a better market for his stock by having more interest in it, and the stability phase of it was not to hold it at a price but to prevent erratic movements in it.

Mr. MARRINAN. I do not mean to question your honest belief in what he thought, but from the character of his operations and the scope of them, undisclosed to you at the time but now revealed, it is not very safe to set one's indorsement on just what Mr. Kreuger thought about anything, is it?

Mr. SILER. I may have misstated my position in that. That was our interpretation of it. Of course, I do not know what was in his mind.

Mr. MARRINAN. Arrangements were made for him to deposit 250,000 shares of Kreuger & Toll stock in this account immediately. And there was curiously ill-defined arrangement as to whether or not it was a really discretionary account, isn't that true?

Mr. SILER. There was this arrangement with it: While he was in town and available we were to consult him as to the conduct of it, what he wished done. When, however, he was not available, and his agent was not available, we reserved to ourselves and he gave us the discretion to act in a way we felt was in the best interest of the account. We had that discretion.

Mr. MARRINAN. And his representative for such purposes was this gentleman, Anders Jordahl.

Mr. SILER. That is right.

Mr. MARRINAN. There was no provision in the agreement as to just what the legal status should be in event Kreuger died, was there?

Mr. SILER. I do not think there was any understanding or provision for his death.

Mr. MARRINAN. Did that not lead to an awkward situation later on?

Mr. SILER. It led to a complication in the loan account, yes.

Mr. MARRINAN. The firm of Eastman, Dillon & Co. was further guaranteed a minimum operation in this account of 1,500,000 shares per year, is that correct?

Mr. SILER. That is correct.

Mr. MARRINAN. May I ask right there what benefit would Eastman, Dillon & Co. derive from such a provision?

Mr. SILER. Well, we would have the commissions in the account.

Mr. MARRINAN. There are many other interesting provisions. Among them may be mentioned that Eastman, Dillon & Co. received options on 1,250,000 shares of stock at prices ranging from $6 to $11 a share and extending over a period of one year, is that correct?

Mr. SILER. I think it is. The aggregate amount I really do not know, but there were options.

Mr. MERRINAN. Did you exercise your right in those options?

Mr. SILER. No; we did not.

Mr. MARRINAN. Arrangements were made to keep an adequate supply of Kreuger & Toll stock in New York to support activity in the account. What about that?

Mr. SILER. The provisions in the agreement to keep available an additional amount of stock from our standpoint was to have additional collateral available if it were needed.

Mr. MARRINAN. It was not so stated in the agreement, however.

Mr. SILER. Well, it was very distinctly understood between Kreuger and ourselves that that was what it was for. And it was at that point that we first had a falling down from him on the agreement.

Mr. MARRINAN. Eastman, Dillon & Co. were given the exclusive right to lend Kreuger's stock, presumably for short-selling purposes, in the United States market, the entire country, in so far as Kreuger could control that situation?

Mr. SILER. Yes.

Mr. MARRINAN. Isn't that a rather extraordinary provision?

Mr. SILER. I should not think so. If borrowers of the stock—other accounts who wished to sell it short—had available an unlimited supply of it with which to make deliveries, we would not have the same effectiveness in the carrying out of Mr. Kreuger's wishes as we would have if the stock could be borrowed there, was already there to use, and with restrictions in other places.

Mr. MARRINAN. It was, in other words, a very important facility to Eastman, Dillon & Co. to, shall we say, manipulate that stock in such a manner as Mr. Kreuger desired to have it manipulated?

Mr. SILER. Well, I do not feel that way, sir. It was very likely a provision that was put in to make it possible for us to lend the stock if the stock was loaned. But Mr. Kreuger did not bind himself to make that a condition that was open to us only. As I recall it in the contract he just said he would if he could.

Mr. MARRINAN. It gave you, nevertheless, very considerable influence over any movements toward the short position in that stock.

Mr. SILER. As a matter of fact the stock was available in amounts from other people in a way that made that of no effect.

Mr. MARRINAN. It was widely distributed, in other words, before this provision went into effect.

Mr. SILER. Oh, yes.

Mr. MARRINAN. And finally it was provided that Eastman, Dillon & Co. will presumably, through Ivar Kreuger, or I. K., arrange a friendly working agreement with Lee, Higginson & Co. in this matter, as far as it may be necessary to our mutual interests. Was that friendly agreement arranged?

Mr. SILER. Well, I think that some of our partners went over to see them about it. I think the intent of that was this: That Mr. Kreuger did not want the fact that he was negotiating with us to offend Lee, Higginson & Co., and in order to have their approval of it, that they might know of it, I think that was the reason that was put in there.

Mr. MARRINAN. They had knowledge of this contract?

Mr. SILER. Yes. Well, I do not know as to the details or the actual terms of the agreement. As to that I can not be sure because I did not go over there to see them. But the fact that Mr. Kreuger was negotiating with us for a loan, they did know about it.

Mr. MARRINAN. I asked Mr. Durant yesterday if he had knowledge of any house in New York which at any time had to liquidate some 400,000 shares of Kreuger & Toll stock, and he denied any such knowledge.

Mr. SILER. I question very much whether he knew that we had 400,000 shares of this stock. Of that I do not know, however.

Mr. MARRINAN. Do you know, Mr. Siler, whether there were any similar contracts covering periods prior to this negotiated between Kreuger and Eastman, Dillon & Co.?

Mr. SILER. As far as I know there were none.

Mr. MARRINAN. Have you knowledge or a belief that similar contracts were negotiated between Kreuger and other members of the New York Stock Exchange?

Mr. SILER. I do not know of them if they existed.

Mr. MARRINAN. Well, this contract was in fact put into effect, isn't that true?

Mr. SILER. Oh, yes.

Mr. MARRINAN. And the trading account was set up?

Mr. SILER. It was opened.

Mr. MARRINAN. And the million dollars was delivered and you got 400,000 shares of long stock, is that true?

Mr. SILER. Yes, in the loan account, and collateral was delivered for the other as you outlined.

Mr. MARRINAN. May I, Mr. Chairman, introduce into the record at this time, with request that it be merely noted and returned to me because I wish to use it, a copy of this rather unusual contract?

The CHAIRMAN. And also you desire it to be printed in our record?

Mr. MARRINAN. Yes, sir.

The CHAIRMAN. It is so ordered.

(The contract referred to above is here made a part of the record, as follows:)

This agreement made and entered into this 25th day of January, 1932, by and between Eastman, Dillon & Co., 120 Broadway, New York, N. Y., hereinafter referred to as E. D. & Co., and Ivar Kreuger, president of the Kreuger & Toll Co., Stockholm, Sweden, hereinafter referred to as I. K.

AMOUNT OF CREDITS

E. D. & Co. agree to loan I. K. $1,000,000 for a period of three months from the date of the signing of this contract with interest at the rate of 8 per cent per annum. Coincident with receiving this loan I. K. agrees to deposit with E. D. & Co. as collateral security for the loan 400,000 shares of K. & T. participating debenture stock with a present market value of about $2,800,000 (based on $7 a share). I. K. agrees to always keep with E. D. & Co. during the life of this loan a minimum of $2,500,000 in current market value of these shares. I. K. will deliver these shares to E. D. & Co. in negotiable form made out in the name of E. D. & Co., or their nominees, and they will be in the regular form of New York Stock Exchange listed shares eligible for transactions on the New York Stock Exchange.

I. K. will coincidentally open an active market stabilizing and trading account with E. D. & Co., the first step of which will be the deposit by I. K. with E. D. & Co. of an additional 250,000 shares of the same K. & T. participating debenture shares. This will be a regular New York Stock Exchange debit balance account and E. D. & Co. will have the right to trade in this account for the account of I. K. for a guaranteed minimum of 1,500,000 shares per year. It is understood that E. D. & Co. will follow the instructions of I. K. or his representative in this trading account at all times, but in matters arising for quick decision marketwise, when in E. D. & Co.'s judgment there is not time to consult by cable or telephone, E. D. & Co., have the right to use their best market judgment and make the decision. It being further understood that E. D. & Co. are to have the right to ask I. K. to take up the amount of the debit balance in the trading account upon demand as is the regular practice governing these open accounts.

E. D. & Co. agree that this account (which will be hereafter always referred to as the trading account) may have a debit balance as large at $1,000,000. If

E. D. & Co. choose to do so and to the extent that I. K. approves, E. D. & Co. may expand this debit balance beyond $1,000,000, in which case the guaranteed minimum number of shares traded will increase prorata with any expansion of the debit balance beyond $1,000,000.

I. K. agrees at all times to keep as collateral with E. D. & Co. a minimum daily market value in K. &. T. participating debenture shares equivalent to two and one-half times the amount of the debit balance.

E. D. & Co. will charge I. K. its usual monthly debit balance interest rate on similar accounts for the first $250,000 of the average monthly debit balance in this trading account. On the remainder of the debit balance I. K. agrees to pay interest at the rate of 8 per cent per annum.

E. D. & Co., while unwilling at this time to definitely agree to any extension of the above-mentioned time loan, have assured I. K. that they will extend this loan for an additional three months if in E. D. & Co.'s opinion they can safely do so when the present three months' period expires.

OPTIONS

In consideration of this agreement I. K. gives to E. D. & Co. the following options exercisable in whole or in part on shares of K. & T. participating debenture stock, viz: 250,000 shares, at $6 per share; 250,000 shares, at $7 per share; 250,000 shares, at $8 per share; 200,000 shares, at $9 per share; 200,000 shares, at $10 per share; 100,000 shares, at $11 per share.

These options will all be for a minimum period of 12 months from the date of the signing of this agreement, but I. K. agrees that E. D. & Co. be given an extension of these options intending E. D. & Co. to have the fullest speculative benefits from them during the first 12 months of the resumption of normal business between Germany, France, England, and the United States, resulting from these countries having reached an agreement (or agreements) producing this resumption. This agreement is worded in this way because both I. K. and E. D. & Co. find it impossible to measure accurately in weeks, months, or years the amount of time which must elapse before these normal business conditions are resumed between these countries. To prevent any difference of opinion as to when normal business has been resumed between these countries, it is agreed that the determining factor will be the first quarterly officially published statements showing export and import business for these 4 countries to be at least as large as the average similar figures for the 5-year period ending 1928 (December 31), measured by dollars in the respective foreign exchanges current at the date of the last of these 4 published quarterly statements, and all options will be extended for 12 months after such date.

It is understood and agreed that the unused buying power in the trading account shall only be decreased below $500,000 with E. D. & Co.'s consent.

It is clearly understood that in spite of the long duration of the given options, the work of E. D. & Co. to improve the market will commence immediately and that the work done in KRT stock by E. D. & Co. will be commensurate with the importance of these options. It is also understood that E. D. & Co. will endeavor to associate with themselves in their work other important financial houses in order to make their activity more powerful.

Twelve months from the date of the signing of this agreement I. K. agrees to buy back from E. D. & Co. on demand all or any part of 600,000 shares of the above options at the rate of $1 per option share in cash, payable in dollars in New York. It is agreed if this transaction takes place it in no way affects the remaining options.

COLLATERAL SUBSTITUTION

I. K. agrees with E. D. & Co. that they have the right to request him to deliver and I. K. will deliver to them 100,000 shares of International Telephone & Telegraph common stock (listed on the New York Stock Exchange and selling at the present time in the neighborhood of $10 a share) and E. D. & Co. will turn back to him K. & T. participating debenture shares of an equivalent market value. E. D. & Co. agrees not to call I. K. for delivery of the above stock unless E. D. & Co. considers it absolutely necessary. E. D. & Co. have the right to request delivery to them of this block of I. T. & T. stock at any time after March 15 as long as any part of the above-mentioned $1,000,000 time loan (or any extension thereof) or any part of the above-mentioned $1,000,000 debit balance (or any extension thereof) may be outstanding.

GENERAL

Failure of I. K. to comply on demand with any one or all of the above requests of E. D. & Co. will in their discretion immediately mature all of I. K.'s outstanding obligations to E. D. & Co. Any default hereunder by I. K. shall in no wise affect rights, options, and privileges accorded to E. D. & Co. herein.

OPERATION OF TRADING ACCOUNT

I. K. agrees to give E. D. & Co. discretionary power to operate the above-mentioned trading account for him and to abide by their judgment as to the amount of shares to be traded in in this account, it being fully understood between I. K. and E. D. & Co. that the latter are going to endeavor to build up and broaden the market in these K. & T. shares over a period of 12 months (which period may be extended by agreement). During these trading operations it is clearly understood that the above-mentioned 1,500,000 shares of guaranteed annual minimum trading, in no way limits E. D. & Co. as to the amount of the shares they may trade in for I. K.'s account on any day or series of days during this period—that matter being, by mutual consent, impossible to intelligently measure at this time and both sides visualize that there may be days when E. D. & Co. will trade in as much as 50,000 or 75,000 shares of this stock, and, on the other hand, there may be a day or days when the trading will be less than 1,000 shares per day or practically nothing—this will all depend upon E. D. & Co.'s sole market judgment under the discretionary trading power which I . K. gives them in this agreement.

While E. D. & Co. are to have discretion in handling this account, they, of course, will keep in as close touch as possible with I. K. and his representative in New York, keeping them both as fully informed as possible on the activities of the account.

E. D. & Co. will render complete statements to I. K. and his New York representative at regular intervals with the object of keeping them as fully informed as possible at all times on these trading-account activities.

ADDITIONAL SHARES AVAILABLE IN NEW YORK

E. D. & Co. realizes there will be a time or times when it may be quickly necessary to ask for additional deliveries of very substantial amounts of stock for either marketing purposes, loaning against short account to prevent runaway markets, or sudden chances to exercise large amounts of options requiring specific deliveries. For these and also for possible collateral reasons I. K. agrees to keep a substantial amount of shares in New York of these K. & T. participating debenture shares readily available for transfer to E. D. & Co.

For collateral, loaning, and optional purposes I. K. agrees to keep 300,000 K. & T. participating debenture shares in New York City in the hands of his agent, or nominee, readily and exclusively available, for transfer to E. D. & Co. upon instruction from I. K.

I. K. agrees that E. D. & Co. will, as far as I. K. can arrange, be the only loaning agent in his shares of this debenture stock in the United States of America.

E. D. & Co. will, presumably through I. K., arrange a friendly working agreement with Lee, Higginson & Co. in this matter as far as it may be necessary and to our mutual interests.

(Signed) ——— ———.
——— ———.

Mr. MARRINAN. Mr. Siler, have you records available which will enable you to follow through with me on the operation of this Kreuger account during the month of March of 1932?

Mr. SILER. I think I have; yes.

Mr. MARRINAN. I have a statement of that account, Mr. Siler, as of March 21. I will have to depend largely on work sheets. You doubtless have additional records.

Mr. SILER. I have it tabulated only by way of accounts, but I have figures that will give you what you want, I think.

Mr. MARRINAN. I might say that this is a report of an investigation conducted by the New York Stock Exchange of that account as of

March 21, 1932, and although I will introduce this in the record later as a complete document, I am using it now to paint the picture as of that date, and to break the situation down into its various component parts, in an effort to trace this thing through as simply as it is possible for us to do it.

Now, there are two groups of accounts in this statement as of March 21, 1932. One is designated as the Ivar Kreuger group, and the other as the Eastman, Dillon & Co. group.

These accounts are numbered accounts on your books, which do not disclose the identity of the persons operating them. Your No. 100 account was really the account of Mr. Anders Jordahl, the special trading agent of Ivar Kreuger. Your No. 110 account was in the name of W. E. Wheeler.

Mr. SILER. That is correct.

Mr. MARRINAN. W. E. Wheeler is a fictitious person.

Mr. SILER. I believe not.

Mr. MARRINAN. Do you know the man?

Mr. SILER. No. But I believe he is not a fictitious person.

Mr. MARRINAN. He was an agent of Kreuger's?

Mr. SILER. I understood an employee in the office of Mr. Jordahl.

Mr. MARRINAN. And the No. 120 account was the account of Kreuger himself.

Mr. SILER. The loan account.

Mr. MARRINAN. And these were three accounts in the so-called Kreuger group in your office?

Mr. SILER. Yes, sir.

Mr. MARRINAN. On the other side of the picture were the accounts operated by your own concern?

Mr. SILER. That is right.

Mr. MARRINAN. Those were also numbered accounts, to conceal the identity of the different accounts in bookkeeping transactions and otherwise; is not that correct?

Mr. SILER. Well, they were numbered accounts but it is a very customary thing. Mr. Kreuger had asked us to be as careful as possible about disclosure of the fact that he was operating. It would be perfectly natural I think if you look at it from his standpoint, if it were a matter of brokerage knowledge and rumor that he was, for instance, buying or selling the stock himself, if it were known that he was doing so, it might have had an influence that was beyond its real meaning. That aroused no unusual comment, nor would I think, the fact that there were numbers on the accounts.

Mr. MARRINAN. It is a common practice, then?

Mr. SILER. Oh, yes.

Mr. MARRINAN. And you followed it for the substantial reason that Kreuger was connected with it?

Mr. SILER. We followed it because he asked us to do so.

Mr. MARRINAN. I mean your own accounts.

Mr. SILER. That was followed through as a part of the same thing.

Mr. MARRINAN. Your No. 111 account, in your firm account, was the account of one of your affiliated organizations, the Edison Securities Corporation; is that true?

Mr. SILER. Yes.

Mr. MARRINAN. What is the Edison Securities Corporation?

Mr. SILER. The Edison Securities Corporation is a wholly owned company—I mean owned by Eastman, Dillon & Co.

Mr. MARRINAN. And its charter permits it to do what especially?

Mr. SILER. I am not familiar exactly with the charter provisions, but we are an underwriting house, and we would, through that company, sometimes take underwriting commitments in securities, or anything of that type.

Mr. MARRINAN. And also, I assume, it is used as a facility in stock trading.

Mr. SILER. There have been stock commitments in it, yes, sir.

Mr. MARRINAN. Your account No. 112 is in fact the Liberty Holding Corporation, another wholly owned subsidiary of Eastman, Dillon & Co.; is that right?

Mr. SILER. Correct.

Mr. MARRINAN. And in much the same category as the other company?

Mr. SILER. That is true.

Mr. MARRINAN. The account here in the Eastman, Dillon group, No. 115, is a separate account of the Edison Securities Corporation, is that it?

Mr. SILER. Yes.

Mr. MARRINAN. Well, now, as of March 21, and this report was rendered on March 22, 1932, to the business conduct committee of the New York Stock Exchange, for the position of these two accounts as of March 21. It shows that you had closed out some four or five days after Kreuger's death the 100 and 110 accounts, and established credits of some $10,289 in 100 account and $209,162 in the other account.

Mr. SILER. My figures are a little different from those figures.

Mr. MARRINAN. Well, we must not get into an elaborate accounting discussion.

Mr. SILER. No need.

Mr. MARRINAN. This is apparent, and I can and will later have it identified, as a report prepared by the accounting division of the New York Stock Exchange.

Mr. SILER. Yes.

Mr. MARRINAN. Made to the business conduct committee of that exchange?

Mr. SILER. Yes.

Mr. MARRINAN. It therefore bears some stamp of accuracy and reality. This shows that in the Kreuger group as of that date you were in the red, or it shows a deficit net of $380,549, and on the other side of the picture you show where you had sold in both your No. 111 and 112 accounts and taken a short position, having credits totaling $434,353, in the two accounts, with a total short position of $211,600, and the whole thing washes out to an equity on that side of the picture amounting to $221,433, all built upon your expectation that you could cover your short position at not more than one. This is figured at one on both sides of the account.

Mr. SILER. Yes, sir.

Mr. MARRINAN. That indicates that you were in the red net there $159,116, barring a change in the market radically different from your estimate of one.

Mr. SILER. Yes; those figures as of that date can be very easily verified, and I am sure that they approximate the situation as you have read them, what they were, if you have them from the exchange. But I have not them compiled as of that date.

Mr. MARRINAN. You have not them as of that date?

Mr. SILER. No.

Mr. MARRINAN. If I could establish this as a report prepared by the New York Stock Exchange you are willing to accept it as an authentic statement of the accounts?

Mr. SILER. Yes, sir.

Mr. MARRINAN. Now, Mr. Siler, let us follow through what happened, briefly, in these various accounts without going into too much detail. I wish to show the committee a very considerable short operation here, and also show you one of these so-called trading accounts so operated in this instance. You closed out that 100 account and the 110 account in the regular way by selling.

Mr. SILER. Yes.

Mr. MARRINAN. First as of March 16, and the second as of March 17.

Mr. SILER. That is right. The collateral was all sold out in both accounts by the 17th.

Mr. MARRINAN. You started operation, the details of which we will go into later, about the 19th of March, which continued on until the 7th and 8th of April, during which time you liquidated your short position and closed out your holdings of Kreuger 400,000 shares which you had gotten originally as collateral in connection with the million-dollar loan, is that correct?

Mr. SILER. Yes. That operation was completed, I think, on the 7th of April.

Mr. MARRINAN. Now, gentlemen of the subcommittee, if you will bear with me for one moment. I have not had time to get this data into a question and answer basis. I am working here from the work sheets. Now, Mr. Siler, I have the No. 111 account before me. What was that account?

Mr. SILER. The No. 111 account was one of ours in the name of Edison Securities Corporation, which was——

Mr. MARRINAN (interposing). I have examined the photostatic copies of your stock record books of that account. I find that as of February 1 that account was short some 3,400 shares, that you went short in that account with substantial regularity day after day until on March 9 you were 30,400 shares short in that account, is that correct?

Mr. SILER. That is substantially correct, yes.

Mr. MARRINAN. Why, Mr. Siler, were you going short in Kreuger stock at that time?

Mr. SILER. With Mr. Kreuger's approval we started to sell stock short in that account a short while after making the loan to him. The chief reason for it was this: We had a substantial amount of one stock as collateral for the loan, and it was in protection of us that we began as a hedge to sell stock short, in order to protect that big position in a single issue.

Mr. MARRINAN. That is a proper explanation of your action up to the date of Kreuger's death.

Mr. SILER. Yes.

Mr. MARRINAN. Now, on the 18th of March you bought 14,400 shares of Kreuger stock in that account, giving you a net short position as of that date of 16,000 shares.

Mr. SILER. Yes.

Mr. MARRINAN. Then you reversed the process again. I mean, that you went heavily short. On the 21st your short position was 108,800 shares of that account, and on the 23d it hit its peak of 188,100 shares in the account, is that correct?

Mr. SILER. I have not, without making the calculation, the ability to verify just those exact amounts on those dates. But the question that you bring up of beginning again of selling short brings in the point that you raised before of the complication in connection with the loan. The margin accounts were of course now liquidated, as of this date. We were in this position: That we had a loan of a million dollars to this man, with collateral in our possession, but not able to liquidate the collateral until we had properly notified and called for additional collateral from the legal representative of his estate. We could not serve that notice until a legal representative of the estate was appointed. As soon as one was appointed we served notice, of course, by cable, and had a reply. In the meantime, however, the general market was weak. It was of course true that the market in this stock was weak. And we were forced to a decision to action for our own protection as to whether or not we should wait until this notice could be served, or at our own account and risk go short of this stock in the attempt to preserve ourselves from such a heavy loss if the stock went down to nothing and the market disappeared. But that was why the decision was made.

Mr. MARRINAN. To follow through on that No. 111 account, one of your own firm accounts: You liquidated that out from the high short position of 188,100 shares as of March 23 until you finally closed it out by covering completely your short position on April 7.

Mr. SILER. Yes, sir.

Mr. MARRINAN. As a brokerage house, Mr. Siler, did your concern do any Kreuger business for clients?

Mr. SILER. Yes, but in very small amounts. We did not have any substantial accounts in it. But if a customer of ours asked us to sell the stock we would accept and execute the order.

Mr. MARRINAN. Did this operation have any effect upon the interests of your clients in Kreuger stock?

Mr. SILER. I think not.

Mr. MARRINAN. Was consideration given to that point in formulating your program to relieve yourselves or to retrieve yourselves from a rather awkward position?

Mr. SILER. Well, I think what we did had no bearing at all on the market for the stock.

Mr. MARRINAN. Let us go into No. 112 account. That No. 112 account was another one of your private numbered accounts, of the Liberty Holding Corporation, and was relatively inactive until after Kreuger's death. Am I correct in that?

Mr. SILER. Yes; that is substantially right.

Mr. MARRINAN. On March 14, two days after Kreuger died, you had a short position in that account of 600 shares, and you immediately went short to a total of 103,000 shares on the 21st, which is increased to 115,000 shares on the 22d. And here again you hit the high point on March 23 of 187,000 shares short, after which that account was liquidated and closed out as of April 7, I believe, through the complete covering of your short position.

Mr. SILER. That is substantially correct. The fact that there were two accounts was a matter of convenience only in posting the records.

It was a part of the operation that I have just outlined to you in protection of ourselves.

Mr. MARRINAN. It was a matter of mechanics within your own office.

Mr. SILER. That is right; the fact that there were two accounts.

Mr. MARRINAN. This 120 Kreuger account you also began to liquidate as of the 24th of March.

Mr. SILER. As of the 23d of March.

Mr. MARRINAN. The 23d of March.

Mr. SILER. Yes, sir.

Mr. MARRINAN. I will accept your figure. You also closed that out completely as of the 7th of April.

Mr. SILER. I think that is so. It was within a day or two of the 7th, certainly.

Mr. MARRINAN. Now, I have one question which has arisen and which is unanswered. I really do not know whether it is worth asking, but please get your records for the date of March 17, your stock records.

Mr. SILER. I will refer to Mr. Brown, who has them.

Mr. MARRINAN. I will state the case while Mr. Brown is getting the records.

Mr. SILER. All right.

Mr. MARRINAN. You have in the box on that date 14,800 shares of Kreuger. You have in the vault 369,000 shares of Kreuger. You have a total in both box and vault of 383,800 shares. Now, on that date in the 111 account you were short 30,400 shares, and in the 112 account you were short 600 shares, making a total of 31,000 shares in those two accounts. The difference between the 400,000 shares and the 369,000 shares in your vault is 31,000 shares.

The report to the committee on business conduct of the New York Stock Exchange as of March 22, and referring to this period, has this to say:

> It appears that the No. 111 and the No. 112 accounts were short approximately 31,000 shares of Kreuger & Toll Co. stock between the 11th and the 17th which was not borrowed in the Street.

Now, where did you borrow the 31,000 shares?

Mr. SILER. Well, of those particular dates I can not be sure. Our general practice was to borrow for our own short position in the open market, and at that time, or later anyway, a premium was on the stock. But we had permission from Mr. Kreuger to use the stock which had been placed with us as collateral, and it would have been possible for stock in our possession, in our customer's account, to have been used in making deliveries for part of that time. The point that I am trying to make here is to the question as to the substantial thing: We were attempting and did borrow in the open market subsequent to Kreuger's death, but we had the privilege in agreement with him to use the collateral.

Mr. MARRINAN. When did you establish your right to do what you wished to do with these 400,000 shares? I mean authority from the estate of Kreuger?

Mr. SILER. We served notice on them on the 19th of March, and made demand that they supply us additional collateral or the loan would have to be matured. And we notified them that if that were not done by the 23d at noon we would start in to liquidate. We had

an acknowledgment of that notice, and they were not able, however, to supply and so stated.

Mr. MARRINAN. The reason I asked the question is that it appears on the face of things here that you did in fact mingle those two groups of accounts as of March 17, and that you did withdraw from the long stock or the loan stock of Kreuger's in your vault 31,000 shares.

Mr. SILER. That might have been possible.

Mr. MARRINAN. Would that have been a violation of your understanding?

Mr. SILER. Do you mean with Mr. Kreuger?

Mr. MARRINAN. Yes.

Mr. SILER. I think not.

Mr. MARRINAN. Then why did you have to wait until the 23d or 24th to get authority to go ahead?

Mr. SILER. That was on the question of liquidation, of selling the account out. That was very different.

Mr. MARRINAN. You had ample authority, then, to dip into that 400,000 shares in the matter of borrowing from that account?

Mr. SILER. So long as it was not sold out; yes.

Mr. MARRINAN. Is there any significance in the fact that you had never done that before up to this time, and you immediately closed it out and went right back into the account and stayed there until you actually began to liquidate that account out?

Mr. SILER. I do not attribute any significance to it. As a matter of fact, I think while the 100 account had collateral in it that there may have been borrowed some from it.

Mr. MARRINAN. No; these two accounts are out at this time.

Mr. SILER. That is what I say. So that if the stock was borrowed from the accounts there was nowhere else to take it but from the 120, in which we had equal authority as with the 100 and 110.

Mr. MARRINAN. Mr. Siler, how did you go about liquidating your position as of March 18 or 19 in these various accounts?

Mr. SILER. On March 19 we were building up our short position, and we had to wait until March 23 to start liquidating the collateral in account 120, the loan account. We had to wait until the 23d for that.

Mr. MARRINAN. You started rather elaborate operations in the market in this stock, didn't you?

Mr. SILER. No.

Mr. MARRINAN. You do not call an elaborate operation where something like a million shares moves back and forth over a short period?

Mr. SILER. Well, I would not say that. Here it was our object, and we were approaching it——

Mr. MARRINAN (interposing). One moment now.

Mr. SILER. All right.

Mr. MARRINAN. Have you answered my other question?

Mr. SILER. Well, we had no way to know what the period would be.

Mr. MARRINAN. But you now know that it proceeded between the 19th of March and the 7th of April.

Mr. SILER. Yes.

Mr. MARRINAN. And you can express an opinion as to whether or not you would regard that as a somewhat elaborate operation.

Mr. SILER. Why, yes; that is a sizable amount of stock in that period; yes.

Mr. MARRINAN. You wrote a letter to Kreuger under date of February 10, asking for additional authority under this loan agreement. What doubts had arisen as to your ability to do all the things that you wanted to do under the terms of the agreement?

Mr. SILER. What did that letter cover? I just forget.

Mr. MARRINAN. This letter on the letterhead of Eastman, Dillon & Co. is dated February 10, 1932, and is addressed to Mr. Ivar Kreuger, care of Kreuger & Toll, 41 Broad Street, New York City, and is as follows:

In relation to the time loan and trading account, referred to in our arrangement dated January 25, 1932, our understanding is that nothing in that arrangement prevents and we are permitted, irrespective of positions taken in the trading account either in your name or your nominees during its continuation or extension, to maintain, be interested in and operate accounts, either long or short, in KRT stock for our own benefit or in connection with others, and for any purposes in connection with these accounts may borrow stock from the trading and time loan accounts.

If you approve, kindly sign your name after the word "approved" below.

Mr. SILER. That was simply an agreement that had been made verbally before that, and the signing of this was made when Mr. Kreuger was next back in town. The object was——

Mr. MARRINAN (interposing). Did he ever reply to that?

Mr. SILER. He signed it.

Mr. MARRINAN. As of what date?

Mr. SILER. I think February 10 is the date. We sent it over to him when he got back to town.

Mr. MARRINAN. Mr. Chairman, I should like to submit that letter and have it printed in full in the record.

The CHAIRMAN. It is ordered that the letter be printed in full in the record.

EASTMAN, DILLON & CO.,
New York, February 10, 1932.

Mr. IVAR KREUGER,
Care of Kreuger & Toll, New York City.

DEAR MR. KREUGER: In relation to the time loan and trading account referred to in our arrangement dated January 25, 1932, our understanding is that nothing in that arrangement prevents, and we are permitted, irrespective of positions taken in the trading account either in your name or your nominees during its continuation or extension, to maintain, be interested in, and operate accounts, either long or short, in KRT stock for our own benefit or in connection with others, and for any purposes in connection with these accounts may borrow stock from the trading and time-loan accounts.

If you approve, kindly sign your name after the word "approved" below.

Yours very truly,

Approved: _____ _____.
_____ _____.

Mr. MARRINAN. Mr. Siler, through what houses did you conduct these operations between the 19th of March, 1932, and the 7th of April of the same year?

Mr. SILER. Well, now, there is a little mixing of times there. From the 19th up to the 23d the loan account was doing nothing. I mean by that that there was no liquidation in the loan account. So that what we were doing for our own account was done variously through our own brokers or through outside brokers. We have never attempted to have all of our orders executed by our own floor members.

Mr. MARRINAN. What outside brokers?

Mr. SILER. We had as I recall it Mr. Weiley of Proctor, Cook & Co., and the records would show, but I am not just sure who were acting for us from the 19th on up to the 23d when we started liquidating the loan account. Then from that point on the accounts were taken by Mr. Bliss of Gilchrist & Bliss, for the liquidation of the 120 account and for the covering of our short position.

Mr. MARRINAN. He did not participate in the operations prior to March 23?

Mr. SILER. Yes. We gave him some orders, I think, for our own account on the 19th, or at least I think so.

Mr. MARRINAN. Mr. Bliss is a member of the firm of Gilchrist & Bliss, am I correct?

Mr. SILER. Yes.

Mr. MARRINAN. Were Lee, Higginson & Co. acquainted with the nature of this operation?

Mr. SILER. Not that I know of.

Mr. MARRINAN. But you have no definite knowledge of that?

Mr. SILER. No, sir.

Mr. MARRINAN. How were your orders for the operation communicated to Gilchrist & Bliss?

Mr. SILER. They were given to Mr. Bliss.

Mr. MARRINAN. In writing?

Mr. SILER. No.

Mr. MARRINAN. How?

Mr. SILER. We had Mr. Bliss come down to see us, I think it was on the 23d, and told him that as the market would permit we wished to sell the collateral, an amount of stock which was 400,000 shares, and that we wished to buy to cover a position, and the amount at that time was 375,000 shares.

Mr. MARRINAN. Did you personally give the order?

Mr. SILER. No. I did not happen to be in the room at the time that Mr. Bliss was given the order. But I talked with Mr. Bliss every day throughout the time it was being executed.

Mr. MARRINAN. He got additional verbal instructions from day to day?

Mr. SILER. No. He had instructions from us to proceed as the market would permit. He was liquidating an account, and to such buyers as were coming into the open market he could sell, and from such sellers as came into the open market he could buy for our account, and he had to proceed along with these two parts of his order as the market permitted. Some days he was able to sell more; some days he was able to buy more.

Mr. MARRINAN. Without confusing the situation by mentioning the details of these accounts, substantially the transaction at that time was this, as I understand it: You had to liquidate your short position which had become very heavy and you had borrowed, actually borrowed stock to make deliveries on your short position?

Mr. SILER. For the most part; yes, sir.

Mr. MARRINAN. You had not taken it out of stock under your control in the box or in the vault?

Mr. SILER. Well, I don't know positively that such a thing did not occur, but in the main we were borrowing in the open market sufficient stock to cover, make deliveries on, the short position, which was, of course, then decreasing all the time.

Mr. MARRINAN. Then you had to sell 400,000 shares of Kreuger stock which you held long and you had to buy 375,000, or whatever the figure may have been, shares to cover your short position?

Mr. SILER. That is correct.

Mr. MARRINAN. And it was for that purpose that these orders were issued to Gilchrist, Bliss, and others?

Mr. SILER. Gilchrist, Bliss only.

Mr. MARRINAN. Gilchrist, Bliss only?

Mr. SILER. Yes.

Mr. MARRINAN. Is it true that the order given to Mr. Bliss of Gilchrist, Bliss instructed him to sell or/and buy 500,000 shares, that meaning a million shares in all, without any additional instructions, or was he instructed to sell and buy a million shares in his discretion and at the same time stabilize the market?

Mr. SILER. No, sir; he was not given such instructions.

Mr. MARRINAN. What were his instructions?

Mr. SILER. His instructions were as the market permitted to liquidate 400,000 shares and as the market permitted to buy 375,000 shares.

Mr. MARRINAN. You had 400,000 shares of this stock right in your control with authority from the estate of Kreuger to do about as you would with it, and you had to cover your short position. Why didn't you use the Kreuger stock?

Mr. SILER. We might have been subject to some criticism from the estate if we had used the entire amount of it. They might have claimed that we would not have been able, had we not been using it, they might have claimed that we would not have been able to cover our short position and to make deliveries against a short sale. So that I am sure that at no time was any substantial amount of the stock borrowed from the account. We recognized that we had no way at all to know that we would not be subject to an attack from the estate if we did not proceed in a very circumspect manner in the liquidation of the account. We did not know how much there was to be recovered or anything.

Mr. MARRINAN. Mr. Siler, I find that the firm of Gilchrist, Bliss during this period when you were selling out the Kreuger long stock and buying back to cover your short position, sold 560,500 shares of Kreuger stock and bought back 375,100 shares. Is that substantially correct?

Mr. SILER. I haven't any way to know about that, sir. I can only tell you what they did for us.

Mr. MARRINAN. I have in my possession and will submit for the record a copy of a commission bill rendered to Eastman Dillon Co. by Gilchrist, Bliss & Co., showing figures which go to make that total. May I submit it for the record?

The CHAIRMAN. It will be printed in the record, without objection.

(The commission bill presented by Mr. Marrinan is as follows:)

Commission bill rendered to Eastman Dillon Co. by Gilchrist, Bliss & Co. of New York, March 31, 1932

Date	Bought	Sold	Description			
Mar. 19		23,600	KRT	Clear	1⅛	$413.00
		59,400	do	do	1½	1,039.50
		5,700	do	do	1⅞	99.75
		71,300	do	do	1	1,247.75
Mar. 23	39,100		do	Gup	1⅛	488.75
	100		do	do	1¼	1.25
	11,400		do	do	1	142.50
		27,300	do	do	1⅛	341.25
		48,300	do	do	1	603.75
Mar. 24	15,700		do	do	1⅛	196.25
	1,000		do	do	1	12.50
		15,700	do	do	1⅛	196.25
		1,000	do	do	1	12.50
Mar. 26	24,600		do	do	¾	123.00
	1,900		do	do	⅞	9.50
	31,900		do	do	1	398.75
		19,000	do	do	¾	95.00
		9,800	do	do	⅞	49.00
		31,900	do	do	1	398.75
Mar. 28	8,900		do	do	½	44.50
	700		do	do	⅝	3.50
		50,000	do	do	½	250.00
		11,500	do	do	¾	57.50
		31,300	do	do	⅝	156.50
Mar. 30	25,400		do	do	¾	127.00
	3,800		do	do	⅝	19.00
		18,100	do	do	¾	90.50
		3,300	do	do	⅝	16.50
Mar. 31	36,400		do	do	¾	182.00
	100		do	do	⅝	.50
		21,900			¾	109.50
						6,926.00
Mar. 31	1,000	100	(canceled $1,100)		¾	5.50
(Across face of photostat in large figures						6,920.50
Apr. 1	33,100		do	do	¾	165.50
		11,800	do	do	¾	59.00
Apr. 2	29,300		do	do	¾	146.50
		6,700	do	do	¾	33.50
Apr. 4	30,400		do	do	¾	152.00
		10,300	do	do	¾	51.50
Apr. 5	600		do	do	¾	3.00
	9,900		do	do	⅝	49.50
		9,400	do	do	⅝	47.00
		2,700	do	do	¾	13.50
Apr. 6	64,400		do	do	½	322.00
		70,600	do	do	½	353.00
Apr. 7	700		do	do	½	
	6,800		do	do	½	34.00
						1,430.00

Mr. SILER. This point, Mr. Marrinan, may arise: That commission bill may refer to dates other than from the time he started his covering of the 375,000 shares and the liquidation of the loan, that is, from the 23d on. He did something for us, some commission business before that time.

Mr. MARRINAN. I think the way it is set up it will not confuse the point I wish to make.

In these operations of Gilchrist-Bliss which I have before me there was bought on the 24th of March two blocks, one of 15,700 shares at 1⅛ and one of 1,000 shares at 1. On the same date the firm of Gilchrist-Bliss, or Mr. Bliss who you say handled this transaction, sold 2 blocks. And no others; these are the only ones that appear as of that date. He sold 15,700 shares at 1⅛ and he sold 1,000 shares at 1.

Is this a washing transaction?

Mr. MARRINAN. Not necessarily. That is not an answer. I know that it is not necessarily.

Mr. SILER. Yes?

Mr. MARRINAN. But was this particular operation a wash?

Mr. SILER. I believe not.

Mr. MARRINAN. It is pretty hard to prove it, isn't it?

Mr. SILER. No, no. I think our records will prove that it is not. I have never had any reason to examine that.

Mr. MARRINAN. What do you think your records will show that will prove that it is not a wash?

Mr. SILER. That the names that the brokers, that is, with whom he had these transactions, are different brokers on his selling and on his buying.

Mr. MARRINAN. And you would have to trace that back all the way to the point of origin on both sides and see that they never met—is that the story?

Mr. SILER. Well, I don't know really how far it would have to be traced. Of course, if, in the execution of those orders in the buying and the selling, the same broker had been the executing broker on both sides, our examination of the record will disclose that right away.

Mr. MARRINAN. Throughout this operation with Mr. Bliss did you give any consideration to the interest of investors, or were you principally interested in getting out of a difficult situation in so far as your firm was concerned?

Mr. SILER. Well, I will tell you, Mr. Marrinan: By this time the price of the stock was at such a level that we had very little to give us much consideration for other holders of the stock. It was down to a half a dollar a share and there was not very much that could be done either constructively or otherwise to change it.

Mr. MARRINAN. What was your net after all commissions, interest, and so forth, on the transaction of this Kreuger loan contract?

Mr. SILER. We have a claim against the estate of about $504,000.

Mr. MARRINAN. On this contract?

Mr. SILER. No.

Mr. MARRINAN. I mean wholly on this contract.

Mr. SILER. The contract involved both the loan and the trading.

Mr. MARRINAN. I mean on both.

Mr. SILER. It is a claim against the estate of about $504,000.

Mr. MARRINAN. Notwithstanding all the dexterity and skill which was used in the liquidation of these accounts?

Mr. SILER. No. No. I am giving you the figure now simply on the claim against the estate. What we did had no bearing at all on that fact.

Mr. MARRINAN. This is the 120?

Mr. SILER. 120, 100, and 110, the Kreuger accounts.

Mr. MARRINAN. The two former ones closed out to a credit as of March 16 and 17?

Mr. SILER. Yes.

Mr. MARRINAN. So that the thing was substantially——

Mr. SILER (interposing). Would otherwise have been larger if that had not been the case. Those were the Kreuger accounts. Now what we did had no bearing whatever on the amount of the claim.

Mr. MARRINAN. Why did you select the firm of Gilchrist-Bliss to do this particular job?

Mr. SILER. He was a qualified broker. We know him.

Mr. MARRINAN. Who, Gilchrist?

Mr. SILER. Frank Bliss.

Mr. MARRINAN. Bliss?

Mr. SILER; Bliss; yes.

Mr. MARRINAN. Would you regard his operation as an especially skillful operation?

Mr. SILER. He is a good broker; yes. We particularly wanted to have the transaction gone ahead with with what expedition it could be given, for this reason: In our notice to the representative of the estate we had said that we would liquidate on and after the 23d as speedily as practicable the collateral, and it was incumbent on us to do that. The market might have gone down, as it did later to an eighth, and we would not have got the benefit of prices that existed earlier.

Mr. MARRINAN. Then you saved yourself considerably by this operation?

Mr. SILER. Oh, Eastman, Dillon & Co.?

Mr. MARRINAN. Yes.

Mr. SILER. We were better off for having made the decision to do what we did; yes.

Mr. MARRINAN. When was the transaction first reviewed by the business conduct committee of the New York Stock Exchange?

Mr. SILER. As I remember it, immediately after Mr. Kreuger's death. So far as I know, the examination by the accountants of the exchange, the investigation of the position of the accounts and all, came immediately after his death.

Mr. MARRINAN. They did that on their own initiative?

Mr. SILER. Oh, yes.

Mr. MARRINAN. Was the contract, so far as you know, passed as being fully in compliance with all the laws of the exchange?

Mr. SILER. So far as I know; oh, yes.

Mr. MARRINAN. No official action or comment upon it, then?

Mr. SILER. I have heard none.

Mr. MARRINAN. Mr. Chairman, we have here a very extraordinary contract which discloses the existence of practices which we found great difficulty in discovering a few months ago. We have a brokerage house virtually conducting a banking transaction. We have a trading account of proportions set up to influence the market in this security. Whether it was to peg it or to give it support is not clear, but that comes within my understanding of manipulation. We have options given to this firm amounting to over a million shares. We have the firm given, in so far as it was possible for Kreuger to give it, the exclusive right to lend all stock of this character in the entire United States, and we have a virtual instruction that in order that Kreuger may keep himself straight with the Lee, Higginson people, Gilchrist-Bliss shall acquaint the Lee, Higginson Co. with the operation and operate to the mutual benefit of all concerned.

Mr. SILER. Please, Mr. Marrinan, may I interrupt just there? I don't want you to get from anything that I have said that Gilchrist-Bliss was in any way obligated to Lee, Higginson & Co. In your statement to the chairman you mentioned Gilchrist-Bliss in connection with Lee, Higginson.

Mr. MARRINAN. I beg your pardon. That should have been Eastman, Dillon. Thank you, sir.

Mr. Siler has no knowledge of whether Lee, Higginson & Co. knew of these specifics of the operation and tradings. Mr. Durant

yesterday denied any knowledge of it. It includes transactions which I may say I am satisfied technically are not washes, but it is exceedingly difficult to prove it. It looks to me like a complete bundle of many things in which this committee is interested, and for which it has sought without much success in the way of concrete evidence up to this time. Mr. Siler, I thank you for your frankness.

The CHAIRMAN. The general result of short selling is not to stimulate the market, is it?

Mr. SILER. I did not understand you.

The CHAIRMAN. The general effect of short selling is not a stimulating effect on the market, is it?

Mr. SILER. I think it has a cushioning effect.

The CHAIRMAN. Yes; keep it from dropping further sometimes?

Mr. SILER. Yes, sir.

The CHAIRMAN. But nevertheless part of the downward trend?

Mr. SILER. Well, it may be.

The CHAIRMAN. When you sell short you sell lower?

Mr. SILER. Well, the rules of the exchange do not permit now the depressing of stock on short sales.

The CHAIRMAN. But the result of short selling is depressing, nevertheless?

Mr. SILER. It might be.

The CHAIRMAN. Yes. You have testified that the short selling here that you did was with the consent of Mr. Kreuger.

Mr. SILER. That is true; yes.

The CHAIRMAN. And if the owners of these shares had known that Mr. Kreuger was selling short, it would have had a very bad effect on the market, wouldn't it?

Mr. SILER. I should think it would, but there is no part of the record that he did.

The CHAIRMAN. But they would have scrambled to unload, wouldn't they?

Mr. SILER. I don't know that, no, sir.

The CHAIRMAN. Isn't that the result; when the boss begins to sell his property short the partners begin to unload?

Mr. SILER. It might have happened, but it might be that he was wanting to accumulate buying power again. Those things are very variously interpreted.

The CHAIRMAN. But the purpose of letting him operate under a number instead of his own name was to keep the information from the public as to who the owner was?

Mr. SILER. Chiefly through brokerage channels, Senator.

The CHAIRMAN. But it had the effect of keeping it from the public; that was the purpose of it?

Mr. SILER. Yes, that is true.

The CHAIRMAN. And to conceal the actual position of Mr. Kreuger, that it was numbered instead of in his name?

Mr. SILER. Yes.

The CHAIRMAN. All right. That is all.

The next witness is Mr. Lindley.

(Mr. Allen L. Lindley stepped forward and raised his right hand.)

The CHAIRMAN. You do solemnly swear that you will tell the truth, the whole truth, and nothing but the truth regarding the matter now under investigation by the committee, so help you God?

Mr. LINDLEY. I do.

TESTIMONY OF ALLEN L. LINDLEY, VICE PRESIDENT NEW YORK STOCK EXCHANGE AND CHAIRMAN OF COMMITTEE ON BUSINESS CONDUCT, NEW YORK STOCK EXCHANGE, ENGLEWOOD, N. J.

(The witness was duly sworn by the Chairman as above indicated.)

Mr. MARRINAN. Mr. Lindley, you are vice president of the New York Stock Exchange?

Mr. LINDLEY. Yes, sir.

Mr. MARRINAN. And a member of its board of governors?

Mr. LINDLEY. Yes, sir.

Mr. MARRINAN. And chairman of its committee on business conduct?

Mr. LINDLEY. Yes, sir.

Mr. MARRINAN. Would you please explain briefly for the record the work of the committee on business conduct?

Mr. LINDLEY. We have, in the first place, to supervise the financial standing of our houses. Secondly, the ethics of our members in dealing with the public. And thirdly, to supervise the trading on the New York Stock Exchange.

Mr. MARRINAN. Three members of the New York Stock Exchange, Mr. Lindley, were involved in the flotation of these secured debentures of Kreuger & Toll Co.

Mr. LINDLEY. Yes, sir.

Mr. MARRINAN. Is that, in the light of what we know now, a matter of interest to the committee on business conduct of the Exchange?

Mr. LINDLEY. It depends on what you mean by floating. If you mean that they are trading and making an artificial market, yes.

Mr. MARRINAN. Then you would not be interested in their activities as houses of issue?

Mr. LINDLEY. Oh, yes, we would. That is, the trading. Not as to the security value, no, not the business conduct.

Mr. MARRINAN. Would you be interested in the steps taken or the steps which were not taken by Lee, Higginson & Co. to safeguard investors in the matter of the indenture or any contingent angles which have been thus far developed before the committee?

Mr. LINDLEY. That would not come under the jurisdiction of the business conduct committee.

Mr. MARRIMAN. Have you any agency in the stock exchange that would properly handle such factors?

Mr. LINDLEY. In this case the stock list would; yes.

Mr. MARRINAN. I wish to make it a matter of record here that Mr. Lindley extended cooperation to this committee freely; that he, at my request, in behalf of the committee, sent accountants into the books of Lee, Higginson & Co. of New York and in Boston and assured me at the conclusion of that examination—if I am not accurate, correct me—that in so far as such a rather comprehensive investigation disclosed, Lee, Higginson & Co. did not profit by any stock market operations either immediately prior to or immediately after the death of Ivar Kreuger.

Is that correct, sir?

Mr. LINDLEY. That is correct. Lee, Higginson & Co. had the same number of shares on the 23d of April that they had on February 12.

Mr. MARRINAN. Did you find in the course of that examination, Mr. Lindley, that Lee, Higginson & Co. bought in behalf of clients a number of shares on the morning of March 12?

Mr. LINDLEY. Yes, sir.

Mr. MARRINAN. Will you state what was the total number of shares?

Mr. LINDLEY. Approximately 15,000 shares.

Mr. MARRINAN. That was——

Mr. LINDLEY (interposing). May I interject? When you say Lee, Higginson—that is for the account of customers on orders, not for the account of the firm.

Mr. MARRINAN. I understand that.

Mr. LINDLEY. And again, when I speak of Lee, Higginson I speak of all the partners in that firm, because we group the partners and their holdings with the firm and its holdings.

Mr. MARRINAN. Then you want the record to show that your examination shows that not only did not Lee, Higginson & Co. but each and every individual partner did not profit in any manner immediately prior to or after the death of Kreuger through stock-market operations?

Mr. LINDLEY. Thank you. I do.

Mr. MARRINAN. You do say that Lee, Higginson in behalf of customers and not for their own account bought 15,000 shares in the market on the morning of March 12, 1932?

Mr. LINDLEY. Yes, sir.

Mr. MARRINAN. That was the day of Mr. Kreuger's death?

Mr. LINDLEY. Yes, sir.

Mr. MARRINAN. And was after the—no: wait a moment. Was that before or after 10 o'clock in the morning?

Mr. LINDLEY. It must have been after 10.

Mr. MARRINAN. Have you any way of ascertaining with some definiteness or have you ascertained whether those orders were scattered over the entire buying time or whether they were grouped early and immediately following the opening?

Mr. LINDLEY. We would have no way of ascertaining that except through some of the partners of Lee, Higginson, and they told us that they canceled their buying orders on learning of Mr. Kreuger's death.

The CHAIRMAN. What do you mean—the buying when they knew about it?

Mr. LINDLEY. Yes, sir.

The CHAIRMAN. Was the market weak at that time? Had it gone down a good deal from the peak at that time?

Mr. LINDLEY. Senator, I am sorry; I was playing golf that day.

The CHAIRMAN. No, I mean as compared over a long period.

Mr. LINDLEY. It had been weak for a period before that; yes, sir.

The CHAIRMAN. In other words, the market had been down for some time.

Mr. MARRINAN. Have you formulated any opinion, Mr. Lindley, regarding the extent of Kreuger's speculations?

Mr. LINDLEY. I would say a decided one.

The CHAIRMAN. A decided one?

Mr. LINDLEY. I think he was a gigantic speculator, one of the largest I ever heard of.

The CHAIRMAN. Covering a long period of years?

Mr. LINDLEY. That I do not know.

Mr. MARRINAN. When did you first realize that, Mr. Lindley?

Mr. LINDLEY. After his death.

Mr. MARRINAN. He successfully concealed that, then, from the business-conduct committee of the stock exchange as well as from his banks?

Mr. LINDLEY. Well, that is a rather difficult question. We knew that he had several accounts. In fact, we on his death went into several houses to make sure that they had ample capital to withstand any loss, if that answers your question.

Mr. MARRINAN. I think it does.

The CHAIRMAN. In other words, the officials of the stock exchange knew prior to his death that he operated in several accounts?

Mr. LINDLEY. Yes, sir.

Mr. MARRINAN. When did you come to realize that Kreuger personally was, through his dominance over this general Kreuger & Toll set-up, really in fact, if not legally so, the whole show?

Mr. LINDLEY. You mean ran it?

Mr. MARRINAN. Yes, Kreuger.

Mr. LINDLEY. Not until after his death.

Mr. MARRINAN. Isn't that extraordinary? I don't mean to impute——

Mr. LINDLEY. No.

Mr. MARRINAN. Impute anything to you, but isn't it extraordinary that a man operating as you now know he operated through houses on the New York Stock Exchange and in many other ways, was not detected in the scope of his operations and the character of them?

Mr. LINDLEY. I do not think his greater speculations perhaps took place with members of the Stock Exchange. They were pretty much all over the world. Those we did not know of until afterwards.

Mr. MARRINAN. Is it true that the charter under which Kreuger & Toll Co. operated prohibits the company itself from trading in stocks?

Mr. LINDLEY. I have never read it.

Mr. MARRINAN. The listing application filed with your committee——

Mr. LINDLEY. Pardon me; I have read the listing application, but the charter I have not read.

Mr. MARRINAN. Your listing application in the sections devoted to the history and business—"Under its charter it may, among other things, acquire and hold securities of any kind, but is prohibited from trading in securities."

There is a rather fine point there. I assume that technically and legally Kreuger & Toll Co. did not trade in securities, but in practice and since we know now that Kreuger was in fact Kreuger & Toll Co., the entire spirit of that charter and its provisions were defeated pretty generally; is that not true?

Mr. LINDLEY. I could not answer that. I do not know.

The CHAIRMAN. I am not sure I get Mr. Marrinan's point. Is it the point that when they made a listing application they admitted they had no right to trade in these stocks?

Mr. MARRINAN. Any stocks.

The CHAIRMAN. Yes; and the application was nevertheless approved by the officials of the Stock Exchange; is that right?

Mr. MARRINAN. Yes, sir.

The CHAIRMAN. Go ahead.

Mr. MARRINAN. Did you have that provision, Mr. Lindley, called to your attention, with respect to Kreuger & Toll Co., of the limitation imposed upon it with respect to trading in stocks?

Mr. LINDLEY. I thought they could do it, because they did buy bonds of certain countries and sold other bonds. That was generally known—or they had that right.

The CHAIRMAN. Let me ask one question here: Is it a fact that there are some applications coming in that sometimes it is difficult to go into the details carefully of each one of them, in the rush of business?

Mr. LINDLEY. Senator, I am not on that committee. They work very hard, and I am not competent to answer that question.

The CHAIRMAN. In other words, you make no defense that the rush of business or the lack of time explains their failure to stop certain things?

Mr. LINDLEY. That has never been a satisfactory explanation for any enterprise.

Mr. MARRINAN. Mr. Lindley, it is a curious provision. I well understand how you state that you can not quite straighten it out. You say that they can acquire and hold but they can not trade.

Mr. LINDLEY. I have never been able to find out the difference between investment and speculation, unless an investor must always hold securities that he has once bought.

Mr. MARRINAN. Mr. Lindley, is the firm of Eastman, Dillon & Co. a member of the New York Stock Exchange?

Mr. LINDLEY. Yes, sir.

Mr. MARRINAN. And also the firm of Gilchrist, Bliss & Co.?

Mr. LINDLEY. Yes, sir.

Mr. MARRINAN. You are, of course, familiar with the terms of this loan agreement between Kreuger and Eastman, Dillon & Co.?

Mr. LINDLEY. Yes, sir.

Mr. MARRINAN. Is that a common form of contracts?

Mr. LINDLEY. It is unusual.

Mr. MARRINAN. Would you call it essentially a loan agreement or a brokerage agreement?

Mr. LINDLEY. I have never known a loan agreement like it. I have never known a brokerage agreement like it. It apparently did not give, as a loan should, the power to sell the collateral against the money borrowed.

Mr. MARRINAN. This first came to your attention when, Mr. Lindley?

Mr. LINDLEY. I would say around the 15th or 16th of March.

Mr. MARRINAN. Was Eastman, Dillon & Co. obligated under your rules in any way to make a report which would have disclosed that contract prior to that time?

Mr. LINDLEY. No, sir.

Mr. MARRINAN. Did you discover it on your own initiative and through your own facilities?

Mr. LINDLEY (turning to an associate). Do you remember whether we discovered it or they brought it to our attention?

Mr. DASSAU. Don't recall.

Mr. LINDLEY. I don't recall.

Mr. MARRINAN. Mr. Lindley, you as far as I can see did in fact——

Mr. LINDLEY (interposing). We went into their office.

Mr. MARRINAN. Went into their office?

Mr. LINDLEY. Yes, sir.

Mr. MARRINAN. We have here a report, to which I have referred several times in the examination of Mr. Siler, to your committee, signed by Mr. Harriman of your accounting department, as of March 22.

Mr. LINDLEY. Yes.

Mr. MARRINAN. May I have this inserted in the record?

The CHAIRMAN. Without objection it will be inserted in the record.

(The report presented by Mr. Marrinan is as follows:)

ACCOUNTING DEPARTMENT,
March 22, 1932.

COMMITTEE ON BUSINESS CONDUCT,
New York Stock Exchange.

GENTLEMEN: The records of Messrs. Eastman, Dillon & Co. show positions in Kreuger & Toll Co. stock as at March 21, 1932, as follows:

	Balance		Security values	
	Debit	Credit	Short	Long
IVAR KREUGER GROUP				
Account No. 100 (A. Jordahl)		$10,289		
Account No. 110 (W. E. Wheeler)		209,162		
Account No. 120 (Ivar Kreuger)	$1,000,000			
Long 400,000 Kreuger & Toll				$400,000
Total	1,000,000	219,451		400,000
Less	219,451			
Net debit balance	780,549			
Long 400,000 Kreuger & Toll, at $1	400,000			
Deficit	380,549			
EASTMAN, DILLON & CO. GROUP				
Account No. 111 (Edison Securities Corporation)		302,691		
Short 108,600 Kreuger & Toll			$108,600	
Account No. 112 (Liberty Holding Corporation)		131,662		
Short 103,000 Kreuger & Toll			103,000	
Account No. 115 (Edison Securities Corporation)	1,520			
Long 200 Kreuger & Toll				200
Total	1,520	434,353	211,600	200
Less		1,520		
Net credit balance		432,833		
Short 211,400 Kreuger & Toll, at $1		211,400		
Equity		221,433		

At March 21, 1932, the records show that the firm was borrowing 170,100 shares and failing to deliver 37,000 shares of Kreuger & Toll Co. stock. It appears that the Nos. 111 and 112 accounts were short approximately 31,000 shares of Kreuger & Toll Co. stock between March 11 and March 17, which was not borrowed in the "Street".

From information furnished by Mr. G. Siler, an agreement was executed between Mr. I. Kreuger and Eastman, Dillon & Co. whereby the latter loaned Mr. I. Kreuger $1,000,000, secured by 400,000 shares of Kreuger & Toll Co. stock. In addition to the above, 250,000 shares of Kreuger & Toll Co. were deposited in the accounts of Messrs. A. Jordahl and W. E. Wheeler, stated to be representatives of Mr. I. Kreuger for trading purposes, in which Messrs. Eastman, Dillon & Co. have discretionary power. An option was given to Messrs. Eastman,

Dillon & Co. by Mr. I. Kreuger on 1,250,000 shares of Kreuger & Toll Co. stock at prices ranging from $6 to $11 per share. Copies of agreements in connection with these matters are submitted herewith.

Respectfully submitted.

B. J. HARRIMAN.

Mr. MARRINAN. Mr. Lindley, what do you think of that loan agreement from the standpoint of the business-conduct committee of the exchange? Is it a healthy proposition?

Mr. LINDLEY. If they had had the one clause that they could have sold out the stock; yes. That was the one thing lacking.

Mr. MARRINAN. This committee is very much interested in studying the question of controlling, if certain contingencies arise, the great expansion of speculative credit. The devices thus far advanced have been largely devices through the banking structure, through banking laws, and through the possible use of the Federal reserve rediscount rate.

Would it not be possible, if this sort of thing were general, to defeat any regulation of that kind in some considerable measure? In other words, if brokerage houses undertook, as this firm appears to have undertaken here, what is essentially, at least in its inception, a banking transaction, would it not under existing conditions be difficult for Congress, if it wished to do so, to reach that sort of a situation in a regulatory way through any banking laws or through action of the Federal Reserve Board?

Mr. LINDLEY. Well, it is very difficult for me to understand what our banking houses can do and what our brokerage houses should not do, if that is what you mean.

Mr. MARRINAN. Have you got any views on that, Mr. Lindley, that would enlighten us here? It is a difficult and confusing problem. If you have any views which you would like to volunteer I am sure the committee will be glad to have them.

Mr. LINDLEY. I really have not, Mr. Marrinan.

Mr. MARRINAN. There was no violation of the rules of the exchange in this Eastman, Dillon transaction?

Mr. LINDLEY. No, sir.

Mr. MARRINAN. It did not come in any manner under your rules appertaining to money loans?

Mr. LINDLEY. No, sir.

Mr. MARRINAN. What is the essence of that money loan rule?

Mr. LINDLEY. Well, a firm can loan their own money. That is all I know.

Mr. MARRINAN. What is the rule in there for?

Mr. LINDLEY. Just what rule is it that you have reference to?

Mr. MARRINAN. I refer to your rule, chapter 7, section 9, page 101, of your constitution.

Mr. LINDLEY. I think you are referring to loans at a materially different rate. Is that the one?

Mr. MARRINAN. That is it.

Mr. LINDLEY. Well, if a firm wanted to obtain business by making a low rate of interest, they could get that business in competition without charging a just and equitable rate. That is why we put it in the constitution.

The CHAIRMAN. For brokerage?

Mr. LINDLEY. Right.

Mr. MARRINAN. Do you think that this sort of thing, or a situation such as we have presented in this loan agreement, might conceivably develop into an impairment of the solvency of Eastman, Dillon & Co. and other brokerage houses that might go into that sort of thing?

Mr. LINDLEY. No, sir.

Mr. MARRINAN. Why not?

Mr. LINDLEY. Because you can not loan money unless you have it.

Mr. MARRINAN. You mean if their credit is good enough so that they can stand any kind of a loss that might occur?

Mr. LINDLEY. It is not a question of credit, sir. We brokers have to put up $125 for every $100 we get.

Mr. MARRINAN. What did Eastman, Dillon get for their million dollars?

Mr. LINDLEY. Four hundred thousand shares of stock.

Mr. MARRINAN. Well, are they not in some measure dependent upon the market condition of that stock to liquidate themselves out of that position?

Mr. LINDLEY. No. They have ample capital to do it.

Mr. MARRINAN. Well, that is another story. I suppose that if you confine it to the single transaction they are dependent in some degree upon the market value of that stock to pull out of it, are they not?

Mr. LINDLEY. No, sir.

Mr. MARRINAN. Why not?

Mr. LINDLEY. Because they had the million dollars and they were able to finance all their other commitments and had ample capital to do it.

Mr. MARRINAN. Do you think it is sound practice to permit any one brokerage house to have the privilege of lending all the stock of a single issue within the confines of the United States, keeping in mind, of course, the fact that that would have been a very difficult provision to take advantage of by reason of the large distribution of stock before this agreement went into effect—but is it a healthy thing to have that sort of a provision in the contract?

Mr. LINDLEY. I would say we must have a free and open market in the loan crowd as we do in the stock market. We pay no attention to the rate of the premium that it might go to, but we demand that we shall have stock in the loan crowd just the same way as a free and open market any other way.

Mr. MARRINAN. And this would tend to rather circumscribe that principle, would it not?

Mr. LINDLEY. I would not think so, no.

Mr. MARRINAN. In the light of all developments and plenty of hindsight, is it fair to say the entire Kreuger set-up was in the nature of a blind pool?

Mr. LINDLEY. Do you mean Kreuger himself?

Mr. MARRINAN. No; the entire set-up, Mr. Lindley.

Mr. LINDLEY. Well, are you talking about the Eastman, Dillon, or what?

Mr. MARRINAN. I am talking about Kreuger & Toll Co. and all its subsidiaries.

Mr. LINDLEY. That is a pretty hard question. I thought it was an investment.

The CHAIRMAN. Do you think so now?

Mr. LINDLEY. I do not. Much to my regret I still have some, and so has Mrs. Lindley. But I bought it as an investment.

Mr. MARRINAN. Reference has been made, Mr. Lindley, to certain foreign liquidation which seems to have preceded Kreuger's death in some degree, and to have, of course, followed it. Some of that liquidation would have been difficult, if not impossible, without use of the facilities of the New York Stock Exchange. What, if any, safeguards are set up within your organization to prevent foreign interests from influencing the American market in times of crisis or in such extraordinary situations as developed through Kreuger's death?

Mr. LINDLEY. None. It is impossible, in my opinion.

Mr. MARRINAN. Is it possible then for foreign interests to conduct a raid against an American issue?

Mr. LINDLEY. No, sir.

Mr. MARRINAN. Why not?

Mr. LINDLEY. So far as I know we have not had any raiding. But if the Stock Exchange in New York is closed and securities are listed on the London or the Paris Bourse, or wherever they are, the American investor or speculator would have the opportunity of selling those securities over there, the same way as our California markets are open three hours after the New York markets.

The CHAIRMAN. Were these securities listed in London?

Mr. LINDLEY. I do not think so.

The CHAIRMAN. The British law is stricter in some respects than ours, or are the rules of the Exchange stricter?

Mr. LINDLEY. I do not know for what reason. That I do not know.

The CHAIRMAN. But he did not get in there, did he?

Mr. LINDLEY. No, sir.

The CHAIRMAN. They just let him in to New York. I thank you.

NEW YORK STOCK EXCHANGE,
January 20, 1933.

Hon. PETER NORBECK,
Chairman Committee on Banking and Currency,
United States Senate,
Senate Office Building,
Washington, D. C.

DEAR SENATOR NORBECK: In my testimony before the Committee on Banking and Currency I was asked whether Kreuger & Toll securities had been listed on the London Stock Exchange. In answer to this question, I stated that these securities had not been listed (see stenographic minutes 2859–2860). Upon my return to New York I had the matter looked up and now find I was entirely mistaken. The secured debentures, as well as the participating debentures and the class B common stock of Kreuger & Toll Co., were listed and dealt in on the London Stock Exchange.

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In order that my mistake may be corrected, I request that this letter be made a part of the record of the investigation.

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Very truly yours,

A. L. LINDLEY, *Chairman.*

Mr. MARRINAN. Mr. Lindley, as chairman of the committee on business conduct you in the course of routine obtain a great deal of information of market value, do you not?

Mr. LINDLEY. Do you mean market value? Very little.

Mr. MARRINAN. What is that, sir?

Mr. LINDLEY. Very little so far as market value goes. The size of the market, the condition of the market, yes. That is the duty of business conduct, to be aware of it. But when we talk of values, I have lost all sense since 1929.

The CHAIRMAN. Was not our sense of values in 1929 worse than any other time?

Mr. LINDLEY. I do not know.

Mr. MARRINAN. I have been informed, Mr. Lindley, that you have, in order to be more circumspect than Caesar's wife, set up all kinds of safeguards to see to it that you never would be in a position of appearing to have the edge on anyone in the matter of information. Is that true?

Mr. LINDLEY. Do you mean I, personally?

Mr. MARRINAN. Yes, sir.

Mr. LINDLEY. Yes.

Mr. MARRINAN. As chairman of the business conduct committee?

Mr. LINDLEY. Yes.

Mr. MARRINAN. Do you think, Mr. Lindley, that a specialist with all the information he has in his book ought to be permitted to trade on his own account?

Mr. LINDLEY. I think it is most essential at times. Otherwise, you can not stabilize the market. These wild fluctuations are what I object to.

The CHAIRMAN. By stabilizing you mean from going too low?

Mr. LINDLEY. No, sir.

The CHAIRMAN. Just from going too high?

Mr. LINDLEY. Both.

The CHAIRMAN. Oh, well, I was wondering why you said no. I was going to get to that. You mean both are necessary?

Mr. LINDLEY. Yes, sir; absolutely.

Mr. MARRINAN. Mr. Lindley, will you not explain just what is meant by stabilizing the market?

Mr. LINDLEY. Supposing a piece of good news comes out, and, let us say, it comes out before 10 o'clock. People from all over the country and abroad wish to buy securities, or a security. There will be thousands of buying orders with practically no selling orders. There the traders or the specialists, or style them whatever you want, might supply stock at a reasonable price or a lower price and not always make money.

Mr. MARRINAN. You are reasonably well familiar with the problem before this committee, are you not, sir?

Mr. LINDLEY. Well, I have been studying it for 30 years so far as speculation goes.

Mr. MARRINAN. Have you got any suggestions that you care to offer in line with what has been developed in the examination, or otherwise, that you think might be helpful?

Mr. LINDLEY. No, sir. I think that—well, I know that we are doing the best at the time—we are studying it, and we keep on studying it. It is evolution. Thirty years has made a big difference, my life, in the practices on the stock exchange.

Mr. MARRINAN. I have concluded, Mr. Chairman.

The CHAIRMAN. You spoke of the necessity of stabilizing, from neither too high nor too low. What do you consider the proper basis of value of stocks on the market?

Mr. LINDLEY. The proper value?

The CHAIRMAN. The basis for value.

Mr. LINDLEY. Supply and demand.

The CHAIRMAN. Not earning power?

Mr. LINDLEY. It was not in 1929 and it is not now.

The CHAIRMAN. Well, that is exactly the point I am trying to get at, whether you look up 1929 as the ideal condition.

Mr. LINDLEY. No, sir; any more than I do 1932 as the ideal condition.

The CHAIRMAN. But you feel that the trading in the stock is what determines the value?

Mr. LINDLEY. No, sir.

The CHAIRMAN. Supply and demand, you said?

Mr. LINDLEY. Yes, sir.

The CHAIRMAN. Is that not reflected by the trading?

Mr. LINDLEY. Not necessarily.

The CHAIRMAN. How else would supply or demand be reflected except by the buying and selling?

Mr. LINDLEY. Where I wish to buy stock for one individual, I do not call that supply and demand.

The CHAIRMAN. But ordinarily the market determines the supply and the demand?

Mr. LINDLEY. Yes, sir.

The CHAIRMAN. And you do not think the earning power of the stock itself is the important factor in value?

Mr. LINDLEY. Well, that is a very difficult question to answer.

The CHAIRMAN. Does it not really get down to that in the long run?

Mr. LINDLEY. I do not think so; no, sir. I think that because some of our large corporations and railroads are not earning money now is no reason——

The CHAIRMAN. No; but they have got 50 years of earnings perhaps back of them, of course.

Mr. LINDLEY. That does not make any difference. If you are running a factory, and it has been running for 50 years, and all the windows are out and the machinery is not in order, you can not make any money out of that.

The CHAIRMAN. No; exactly so. The previous earnings might be considered a little like they are in the railroad stock.

Mr. LINDLEY. That is not anything that is going to help me.

The CHAIRMAN. No; exactly so. Therefore, I say, in the long run it gets down to whether it earns anything or not, does it not?

Mr. LINDLEY. It should, primarily; yes, in the long run.

The CHAIRMAN. Yes. That is the point exactly. Instead of the trading. I thank you very much.

Mr. LINDLEY. Thank you, sir.

The CHAIRMAN. This practically concludes the investigation of the Kreuger & Toll matter, at least as far as hearings are concerned.

(Thereupon, at 4.45 p. m., Thursday, January 12, 1933, the hearing was adjourned subject to the call of the chairman.)

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